Macro Outlook

July 2026

Macro Outlook

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- In the global scenario, US and Iran announced a ceasefire deal and the resumption of flows through the Strait of Hormuz, marking relevant easing in Middle East tensions. Some points remain uncertain, such as whether the ceasefire will be respected and the possibility of attempts to implement tolls in the Strait, but the de-escalation is clear. Still, disruptions caused in global supply chains haven't fully reversed, and the size of impacts over inflation and growth remain unclear. In the US, the FOMC kept rates unchanged at Warsh's first meeting as Chair, in line with expectations, but there were larger-than-expected upward revisions in the median Fed Funds Rate projections, which now imply half a 25bps hike in 2026. Also, the statement was strongly reduced, forward guidance was removed, and Warsh announced the creation of taskforces to revise Fed's monetary policy tools. The meeting marks a regime change in Fed communication, which is expected to contain less forward guidance and put more focus on high-frequency data. Regarding data, May inflation was modestly below expectations in both CPI and PCE, but the acceleration trend since the conflict is still clear. On the labor market, June payroll was weaker than expected, with slower job creation, negative revisions, and a reduction in the unemployment rate – partly driven by lower participation rate -, but the recent trend remains solid, in line with other data. The final estimate of the GDP confirmed AI-related investment as the main driver of growth, despite slower consumption. Overall, despite reduction in geopolitical risks, the Fed should remain on a cautious stance, carefully assessing the lagged impacts of the conflict.

- Regarding China, the May data releases continue to point to a heterogenous growth composition. External sector and industrial production continue to improve, as both had stronger than expected performance in May, both strongly driven by high technology sectors. In the other hand, retail sales and Fixed Asset Investment surprised expectations to the downside and continue to suggest subdued domestic demand. Additionally, may continued to show an improving outlook for inflation, specially in the Producer Price Index, and the housing sector continued to lag the rest of the economy, despite some modest signs of improvement. Overall, high-tech manufacturing and exports are expected to continue to outperform the rest of the economy, but the de-escalation of the conflict is expected to improve confidence in broader activity.

- In Brazil, May industrial production declined 0.2% MoM, below market expectations (+0.3% MoM). Additionally, in April, services expanded 1.2% MoM, outperforming market expectations (+0.8% MoM), while broad retail sales disappointed, falling 0.7% MoM versus +0.2% expected. The broader set of indicators still points to a resilient economy, although there are gradual signs of moderation in economic activity. Meanwhile, the IBC-Br rose 0.5% MoM, slightly below market expectations (+0.6% MoM). The labor market remains tight, with the unemployment rate near record lows, although recent PNAD and CAGED data suggest early signs of a gradual cooling in labor market conditions, with softer job creation and labor income dynamics.

- In the June meeting, the Monetary Policy Committee reduced the Selic rate by 25bps to 14.25%, in line with expectations. Inflation projections six quarters ahead increased from 3.5% to 3.7% in 4Q27, under a scenario in which rates decline to 13.75% in 2026 and 12% in 2027. Despite the move, the statement acknowledged a deterioration in the inflation backdrop, with headline inflation above the upper bound of the target range, core measures re-accelerating, and expectations becoming further unanchored. Against this backdrop, however, the Committee signaled a preference for a less aggressive policy path, opting for a smoother adjustment rather than an upfront adjustment. Central to this strategy is an implicit extension of the relevant policy horizon to 1Q28, when inflation is expected to fall to around 3.2%, partly reflecting a sharper reversal of recent supply shocks, including the dissipation of El Niño effects. While the Committee remains data-dependent and retains flexibility, the overall message is that room for further easing has narrowed materially, with the baseline pointing to just one additional 25bps cut followed by a pause.

- June IPCA-15 rose 0.41% MoM, below market expectations (0.44% MoM). The 12-month accumulated inflation accelerated from 4.64% to 4.80%. The main downward surprises relative to our forecast came from food at home. Core services inflation increased 0.27% MoM, with the 3M SAAR declining from 6.1% to 5.3%, remaining well above the inflation target. The average of core inflation measures rose 0.34% MoM, with the 12-month rate at 4.42%. Looking ahead, inflation should remain under pressure, particularly in services and industrial goods, as well as still-elevated food prices, despite some near-term easing and partial relief from fuel costs.

- The consolidated public sector posted a primary deficit of BRL 56.1 billion in May, above the BRL 33.7 billion deficit recorded in the same month of 2025. The result came in above both market consensus of BRL 53.0 billion. Year-to-date, the public sector has posted a deficit of BRL 24.9 billion, while over 12 months it posted a deficit of BRL 149.0 billion, equivalent to 1.1% of GDP. Regarding the breakdown, the central government and regional governments posted deficits of BRL 55.2 billion and BRL 1.2 billion, respectively, while state-owned enterprises posted a surplus of BRL 0.3 billion. General Government Gross Debt rose from 80.2% of GDP to 81.1% of GDP, pressured by nominal interest payments (+0.9 p.p.) and net issuances (+0.4 p.p.), partially offset by nominal GDP growth (-0.5 p.p.).

China: Economic Activity

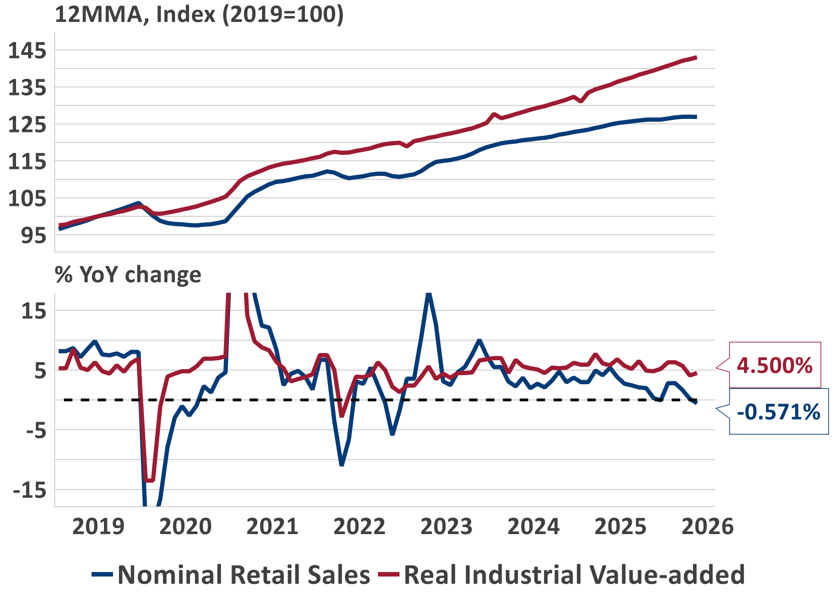
- **Monthly economic activity continued to show mixed signals in May:**
- **Industrial production** accelerated above consensus, from 4.1% to 4.5% YoY (exp 4.3%). The acceleration has been coming mostly from tech sectors, including AI-related industries, and renewable energy.
- In the other hand, **retail sales** decreased from 0.2 % to -0.6% YoY (exp. 0.0%), primarily led by contractions in sales of autos and home appliances, while clothing remained resilient.
- **FAI fell** from - 1.6 to -4.1% YTD YoY (exp. -2.0%), as real estate investment remains subdued and heavy rains impacted the construction sector. Additionally, anti-involution policies (aimed to address overcapacity and deflation) continue to generate weakness in investment.
- **Housing:** property indicators remained in negative territory YoY, even as some indicators have been showing a modest recovery trend in recent months.

China: Activity (% YoY)

	5/2026	4/2026	5/2025
Industrial Production	**4.5**	**4.1**	**5.8**
Mining	2.3	5.1	5.7
Manufacturing	4.4	4.0	6.2
Utilities	7.6	5.3	2.2
Fixed Asset Investment (YTD)	**-4.1**	**-1.6**	**3.7**
Manufacturing	-0.4	1.2	8.5
Real Estate	-16.2	-13.7	-10.7
Infrastructure	0.6	4.3	5.6
Retail Sales	**-0.6**	**0.2**	**6.4**
Catering Services	0.6	2.2	5.9
Consumer Goods	-0.7	-0.1	6.5
Clothing	3.8	3.6	4.0
Automobiles	-16.1	-15.3	1.1
Furniture	-8.7	-10.4	25.6
Cellphones	0.7	6.2	33.0
Home Appliances	-15.6	-15.1	53.0
Construction	-13.6	-13.8	5.8

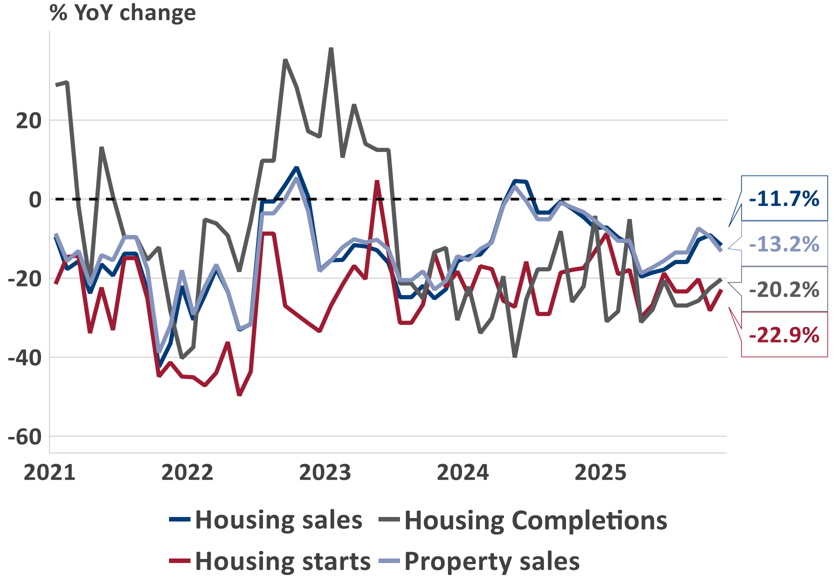
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Property Indicators (YoY)

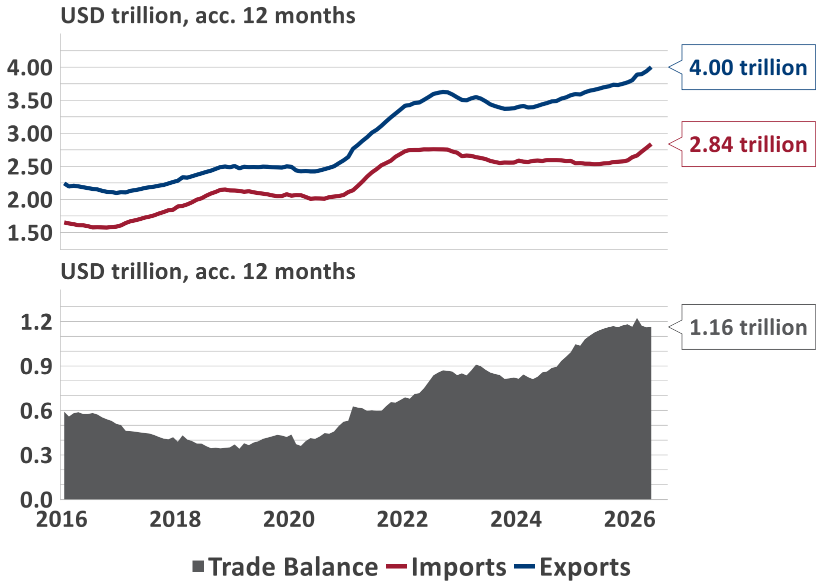


Source: BOCOM BBM, NBS

China: Economic Scenario

- **Trade growth continued to strengthen in May:**
  - **Export growth accelerated meaningfully**, from 14.1% to 19.4% YoY (15.0% expected). The increase was broad-based, with tech goods remaining as the strongest components, supported by the AI investment boom and increased demand for electric vehicles.
  - **Imports were also stronger than expected and maintained a strong pace (from 25.3% to 27.4%, exp. 25.0%).** In the composition, these were supported by robust imports of mechanical and electrical products, while imports of agricultural products softened.
- **CPI inflation was stable in May, broadly in line with market expectations (at 1.2% YoY, vs 1.3% expected):**
  - Energy prices remained elevated due to the Iran conflict, despite a partial offset from lower food prices.
  - **The Core CPI ticked modestly down, from 1.2% to 1.1% YoY,** as Services decelerated marginally.
  - The impacts of higher energy prices are clearer in the PPI, which ticked up again, from 2.8 % to 3.9%, in line with market consensus - the third consecutive month of positive PPI inflation, after almost 4 years in negative territory.
  - The recent improvement in inflation dynamics is expected to remain in place in the upcoming months, supported by both higher global prices due to the conflict and the government policies aimed at addressing excess capacity.

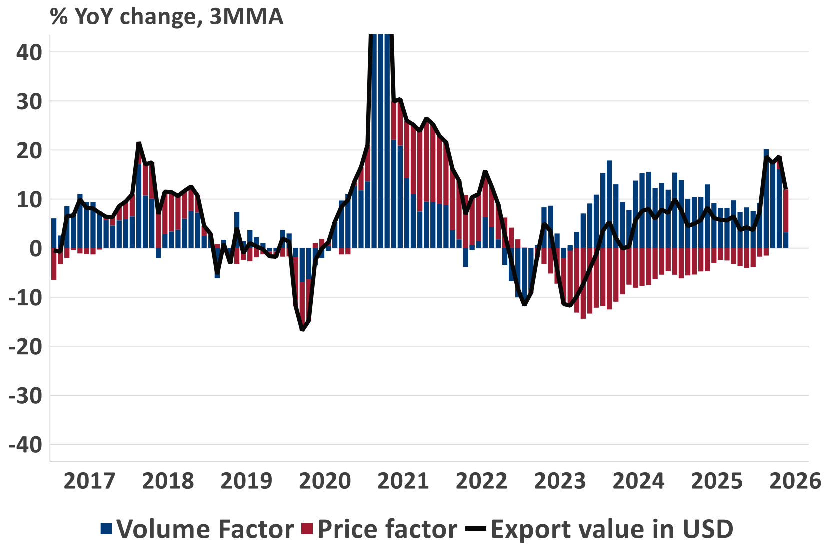
China: Trade Balance



Source: BOCOM BBM, Macrobond, GAC

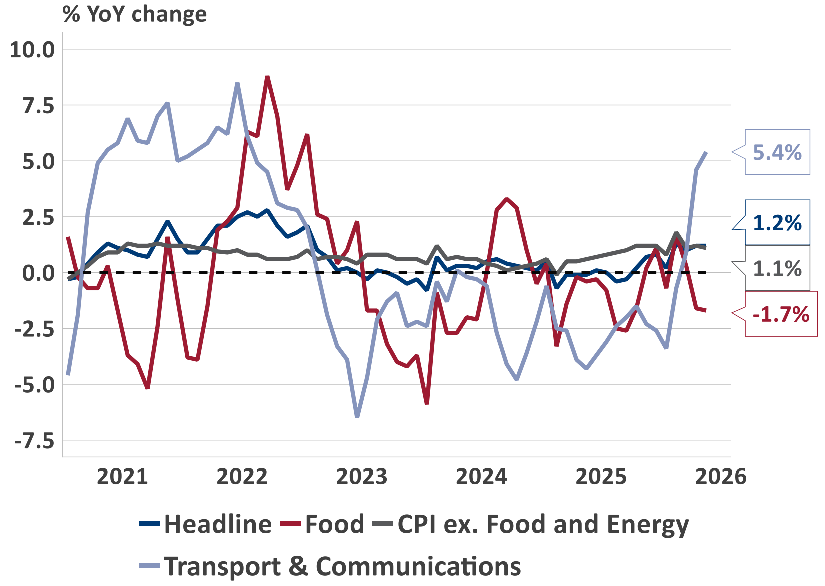
China: Exports (Price x Volume)

Last observation at 5/2026



Source: BOCOM BBM, Macrobond, GAC

China: CPI



Source: BOCOM BBM, Macrobond, NBS

USA: Labor Market

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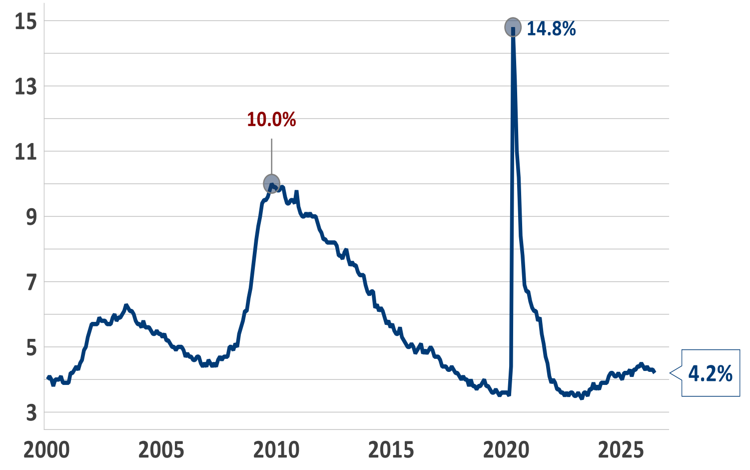
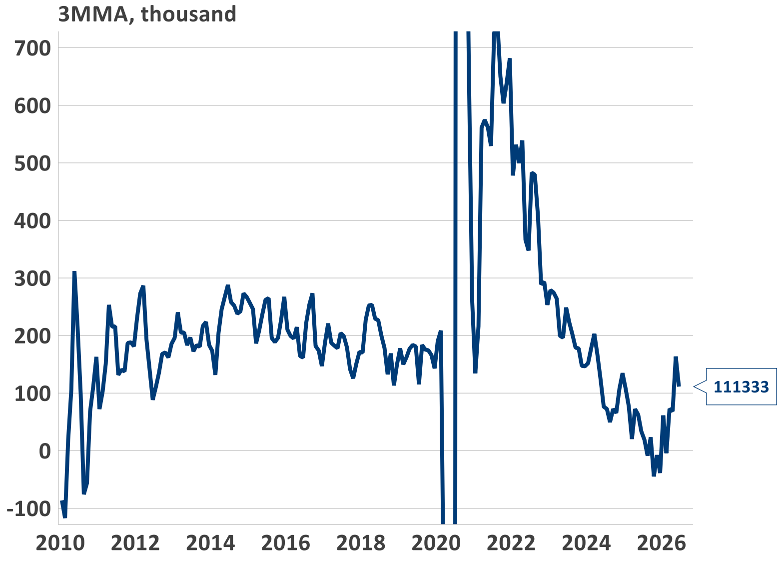
- The **June Payroll surprised expectations to the downside**, but remained at a solid pace;
  - Job creation slowed by more than expected, from 129k to 57k, below expectations of 100k.
  - The 2-month net revision was -74k: from 179k to 148k in April and 172k to 129k in May.
    - This took the 3MMA pace of job creation down to 111k, below the previous release's 164k (after revision).
  - In the composition, private payrolls drove the slowdown, from 97k to 49k (vs. 95k expected), while government payrolls fell by less than expected, from 32k to 8k (0k expected).
  - In the other hand, the unemployment rate unexpectedly decreased, from 4.3% to 4.2%, against consensus of stability. But the move was partly driven by a drop in the foreign population's participation rate;
  - Average hourly earnings rose 0.35% MoM, modestly above its recent trend and market consensus of 0.2%
    - It suggests some renewed wage pressures, even as this was not yet detected in other wage growth measures;
- Overall, the June payroll had a **weaker than expected composition**, **but its recent trend remains at resilient levels**, after the three previous prints were stronger than expected;
- In any case, the US labor market continues to show low hiring and layoff rates, as shown in the latest JOLTS survey - a sign of relative resilience despite the easing in the labor market in recent years.

US: Unemployment Rate SA (%)



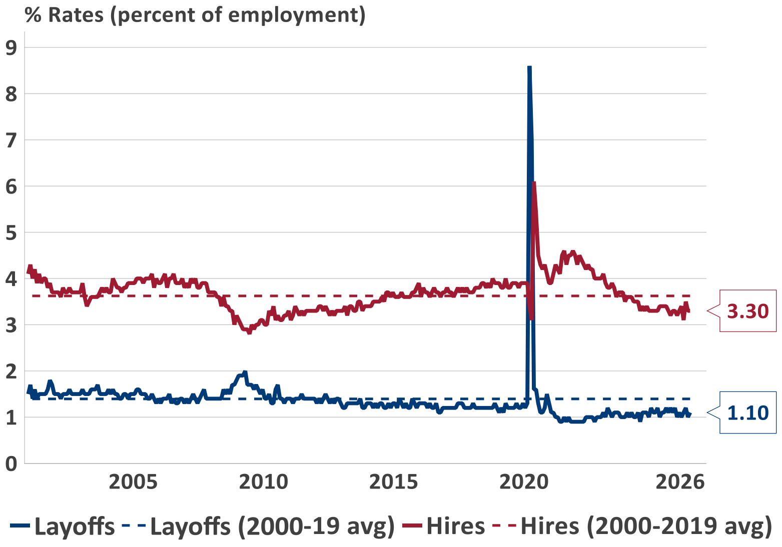
Source: BOCOM BBM, Macrobond, BLS

US: Nonfarm Payroll Employment Change



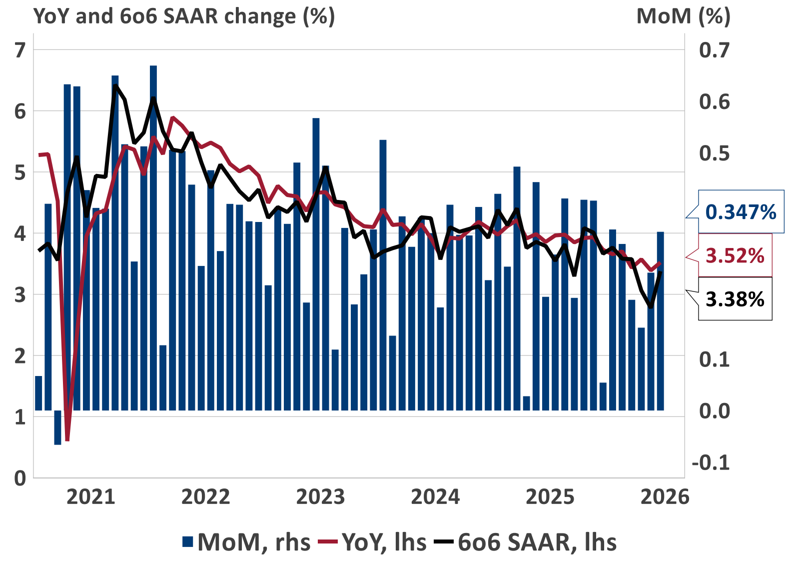
Source: BOCOM BBM, Macrobond, BLS

US: JOLTS - Hires x Layoffs (Rates)



Source: BOCOM BBM, Macrobond, BLS

US: Average Hourly Earnings Growth (%)



Source: BOCOM BBM, Macrobond, BLS

USA: Inflation

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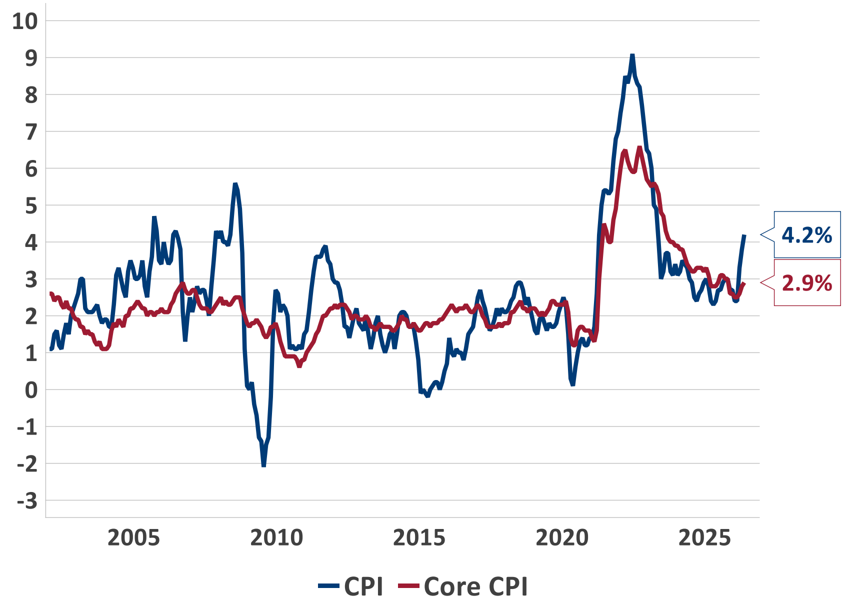
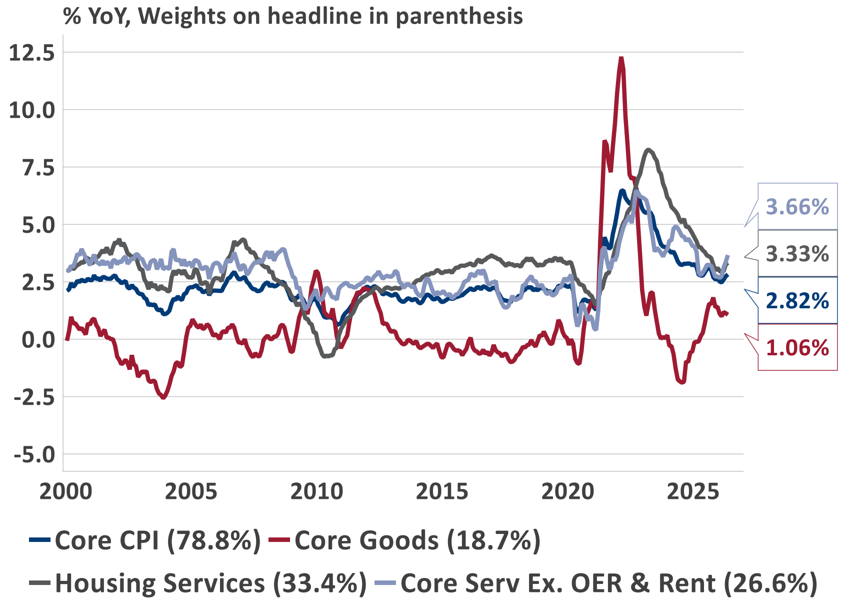
- The **May headline CPI slowed from 0.64% to 0.47% MoM, below expectations of 0.54% but still at elevated levels.** This led to another YoY increase, as expected, from to 3.8 to 4.2%:
  - In the composition, energy prices remained elevated but were lower than consensus (from 3.8 to 3.9% MoM, vs 4.2% exp), and food prices were also a bit weaker than expected.
- The **core CPI also slowed by more than expected, from 0.38% to 0.21% MoM (0.27% exp**), lifting the YoY rate from 2.8% to 2.9%, in line with consensus:
  - Core goods unexpectedly dropped to negative levels, from 0.03 to -0.11%, vs 0.19% expected. Core goods excluding vehicles were also negative, suggesting optimistic signals regarding tariff-related inflation, which seems to be on a slowing trend in recent months.
  - Core Services slowed broadly in line with consensus (from 0.50% to 0.29, 0.30% exp), with the core services ex-housing (supercore) coming a bit lower than expectations (from 0.45% to 0.27%,vs. 0.29% exp.), amid weak transportation services.
- Overall, **the May CPI showed some improvement after a strong previous month, with slowing in most of the main components**:
  - But looking ahead, headline inflation should continue to pick up due to residual impacts of the Middle East conflict, while significant spillovers into core inflation are not the baseline scenario but remain as a risk;

US: CPI (YoY, %)



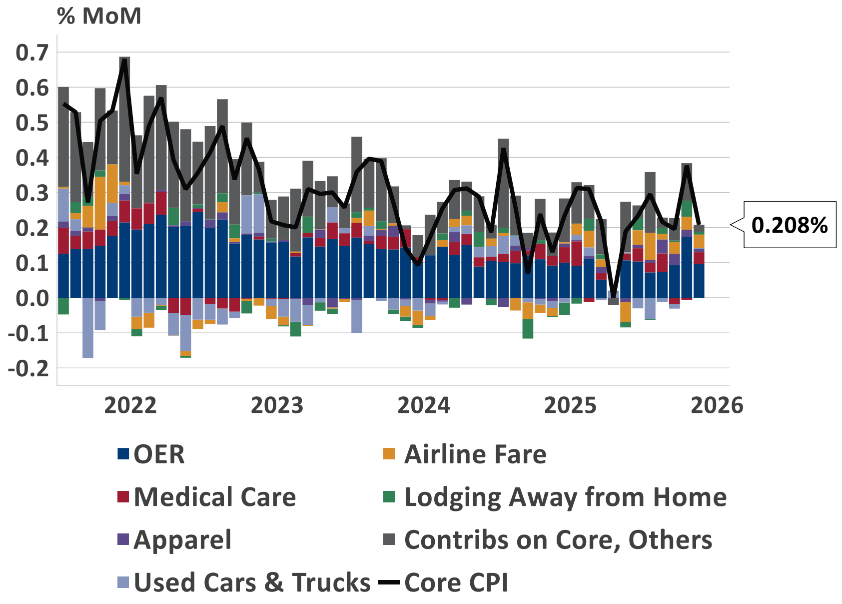
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions

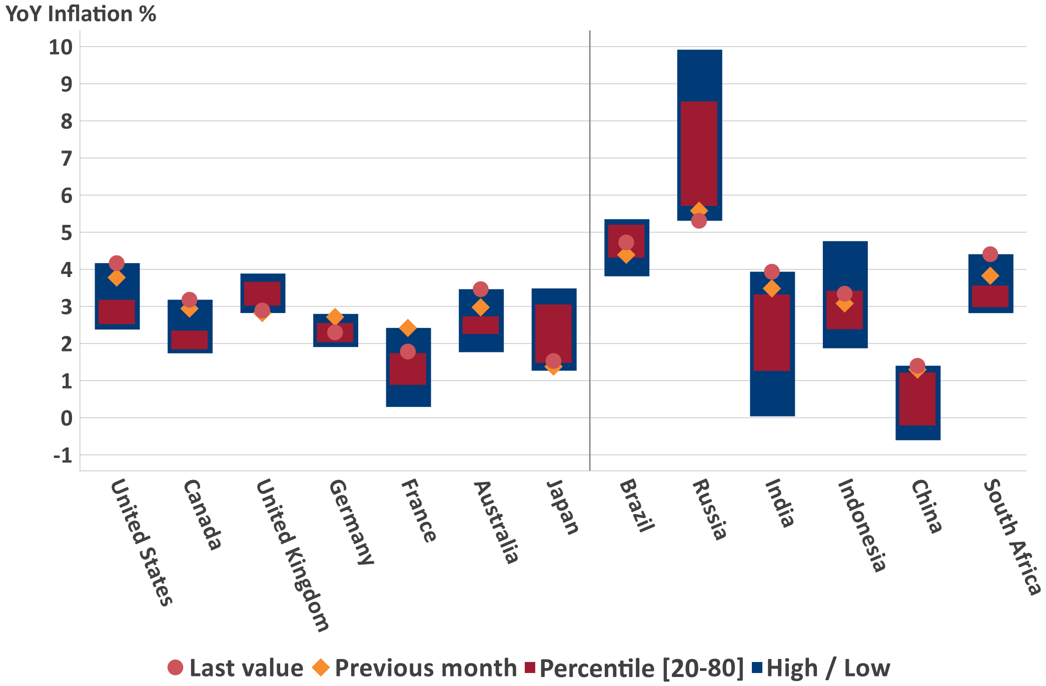


Source: BOCOM BBM, Macrobond, BLS

Global: Inflation & Activity

- **There was considerable de-escalation in the Middle East conflict in June, but the disruptions caused in global supply chains haven't fully reversed, and continue to affect the global economy;**
- **These impacts continue to drive expectations of elevated inflation and slower activity in most economies**, even as impacts have been heterogenous based on exposure to the conflict and domestic fundamentals.
- Nonetheless, **global activity is expected to count with some resilience buffers**, especially from the significant monetary policy easing in recent years and the boost related to increased fiscal easing. **The transmission channels of the conflict will determine the dominant drivers to the global economy in 2026.**

Inflation range during the past 12 months



Source: BOCOM BBM, Macrobond

G20: GDP Growth Tracker (QoQ, %)

Countries marked in red indicates a technical recession:
2 consecutive quarters of negative sequential growth

	Q1 2026	Q4 2025	Q3 2025	Q2 2025	Q1 2025	Q4 2024	Q3 2024	Q2 2024
Argentina	0,7	1,2	0,1	0,3	0,8	1,9	3,6	-0,4
Australia	0,3	0,9	0,4	1,0	0,3	0,4	0,3	0,3
Brazil	1,1	0,3	0,1	0,3	1,3	0,1	0,9	1,7
Canada	0,0	-0,2	0,5	-0,2	0,7	0,7	0,8	0,8
China	1,3	1,2	1,1	1,1	1,1	1,6	1,4	1,0
Euro Area	0,4	0,2	0,3	0,1	0,7	0,4	0,4	0,2
France	-0,1	0,2	0,4	0,3	0,1	0,0	0,4	0,3
Germany	0,3	0,2	0,0	-0,2	0,4	0,2	0,0	-0,3
India	3,7	12,4	0,0	-7,4	3,8	12,8	-1,4	-7,3
Indonesia	-0,8	0,9	1,4	4,0	-1,0	0,5	1,5	3,8
Italy	0,3	0,3	0,2	0,0	0,3	0,1	0,0	0,2
Japan	0,5	0,2	-0,6	0,3	0,5	0,3	0,7	0,0
Mexico	-0,6	0,7	-0,1	0,3	0,6	-1,1	1,1	0,0
Russia	-0,6	0,4	0,0	0,3	-0,4	0,9	0,5	0,6
Saudi Arabia	-2,5	3,9	2,4	-0,7	-0,4	3,9	1,6	-1,4
South Africa	0,5	0,4	0,3	0,8	0,1	0,4	-0,3	0,3
South Korea	1,8	-0,1	1,4	0,6	-0,2	0,2	0,1	-0,2
Turkey	-16,4	1,7	12,2	7,4	-15,6	2,1	13,1	5,1
United Kingdom	0,6	0,1	0,1	0,2	0,6	0,4	0,2	0,6
United States	0,5	0,1	1,1	0,9	-0,2	0,5	0,8	0,9

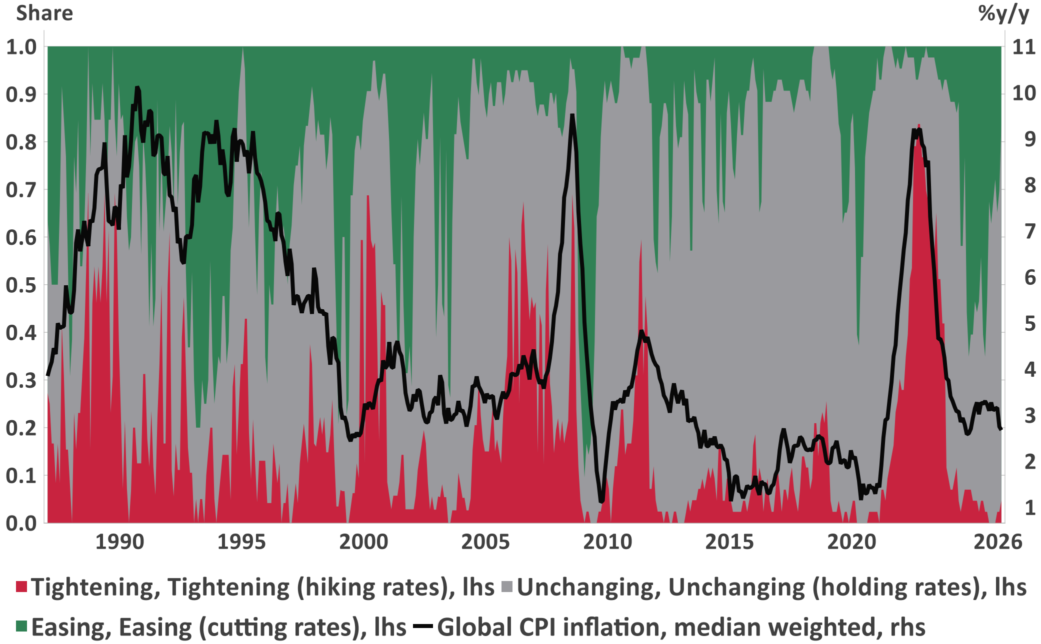
Sources: BOCOM BBM, Macrobond, National Sources

Global: Monetary Policy

- After a global easing in monetary policy during 2025, the impulse in a stagflationary direction from the Middle East conflict, combined with rising risk premia, is **pushing central banks toward a more restrictive stance**.
- The uncertainty regarding potential effects of geopolitical tensions in each country’s domestic context should continue to lead institutions toward a more cautious approach in 2026.
- Overall, **easing bias has already been replaced by discussions about tightening in the majority of G20 economies**, and some central banks already started delivering rate hikes in recent months - such as in the EU, Japan and Australia.

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 2-Jul-26



Source: BOCOM BBM, Macrobond, World Bank

Central bank tracker: G20 & OECD Countries

	CPI Y/Y %	Core CPI Y/Y %	Key rate	Last decision		Last Move	Months since last hike	Months since last cut
Argentina	33,2	32,0	29,00	-3,00	Cut	1/2025	33	17
Australia	4,0	3,9	4,35	0,25	Hike	5/2026	2	11
Brazil	4,7	4,5	14,25	-0,25	Cut	6/2026	12	1
Canada	3,2	2,1	2,25	-0,25	Cut	10/2025	36	8
Chile	3,9	2,9	4,50	-0,25	Cut	12/2025	45	7
China	1,4	1,1	3,00	-0,10	Cut	5/2025	149	13
Colombia	5,8	6,1	12,00	0,75	Hike	7/2026	0	14
Costa Rica	-1,0	-0,1	3,25	-0,25	Cut	12/2025	44	6
Czech Republic	2,1	0,2	3,75	0,25	Hike	6/2026	0	14
Denmark	1,9	2,1	2,00	0,25	Hike	6/2026	1	13
Euro Area	2,8	2,4	2,40	0,25	Hike	6/2026	1	13
Hungary	1,8	1,9	6,00	-0,25	Cut	6/2026	45	0
Indonesia	3,3	2,8	5,75	0,25	Hike	6/2026	1	10
Israel	1,9	1,7	3,75	-0,25	Cut	5/2026	37	1
Japan	1,5	1,8	1,00	0,25	Hike	6/2026	1	125
Mexico	3,9	4,2	6,50	-0,25	Cut	5/2026	39	2
New Zealand	3,1	2,6	2,25	-0,25	Cut	11/2025	37	7
Norway	3,1	3,4	4,25	0,25	Hike	5/2026	2	9
Poland	2,4	3,1	3,75	-0,25	Cut	3/2026	46	4
Russia	5,3	4,9	14,25	-0,25	Cut	6/2026	20	0
Saudi Arabia	1,8		4,25	-0,25	Cut	12/2025	35	7
South Africa	4,4	3,8	7,00	0,25	Hike	5/2026	1	7
South Korea	3,2	2,5	2,50	-0,25	Cut	5/2025	42	13
Sweden	0,8	1,5	1,75	-0,25	Cut	10/2025	33	9
Switzerland	0,5	0,3	0,00	-0,25	Cut	6/2025	36	12
Turkey	32,6	30,4	37,00	-1,00	Cut	1/2026	15	5
United Kingdom	2,9	2,6	3,75	-0,25	Cut	12/2025	35	7
United States	4,2	2,8	3,75	-0,25	Cut	12/2025	35	7

Source: BOCOM BBM, Macrobond

Brazil: Forecasts

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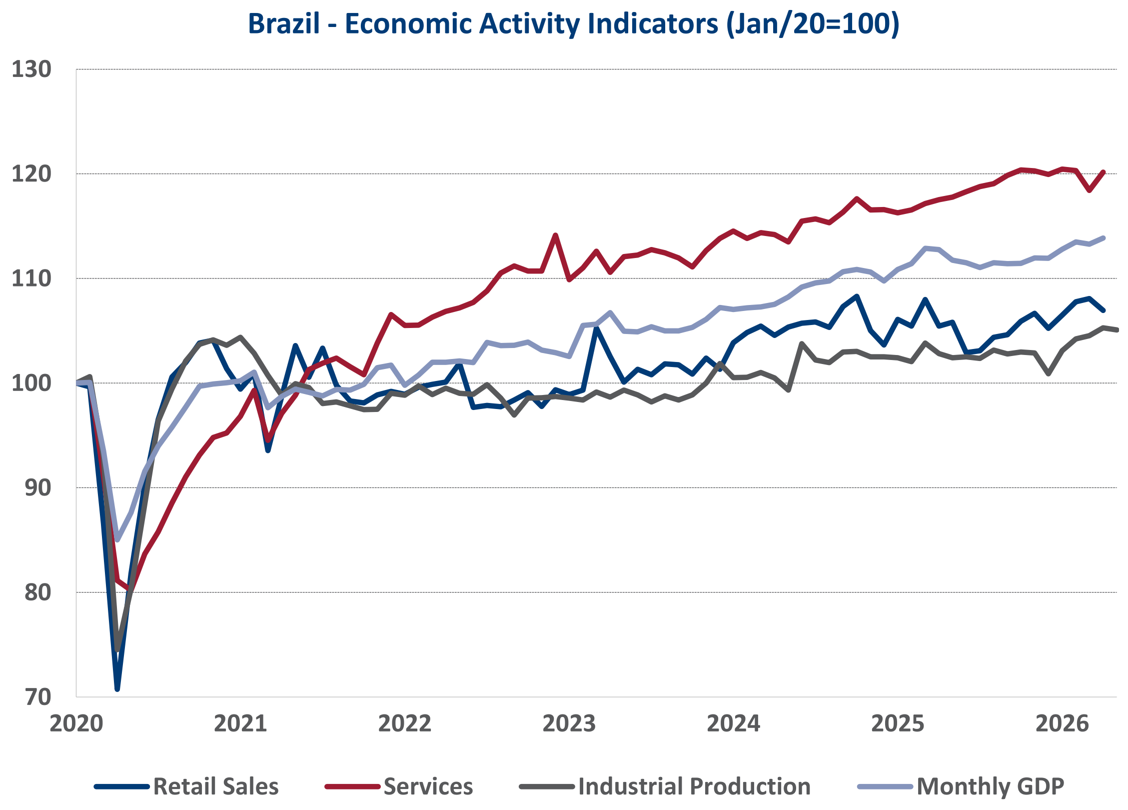
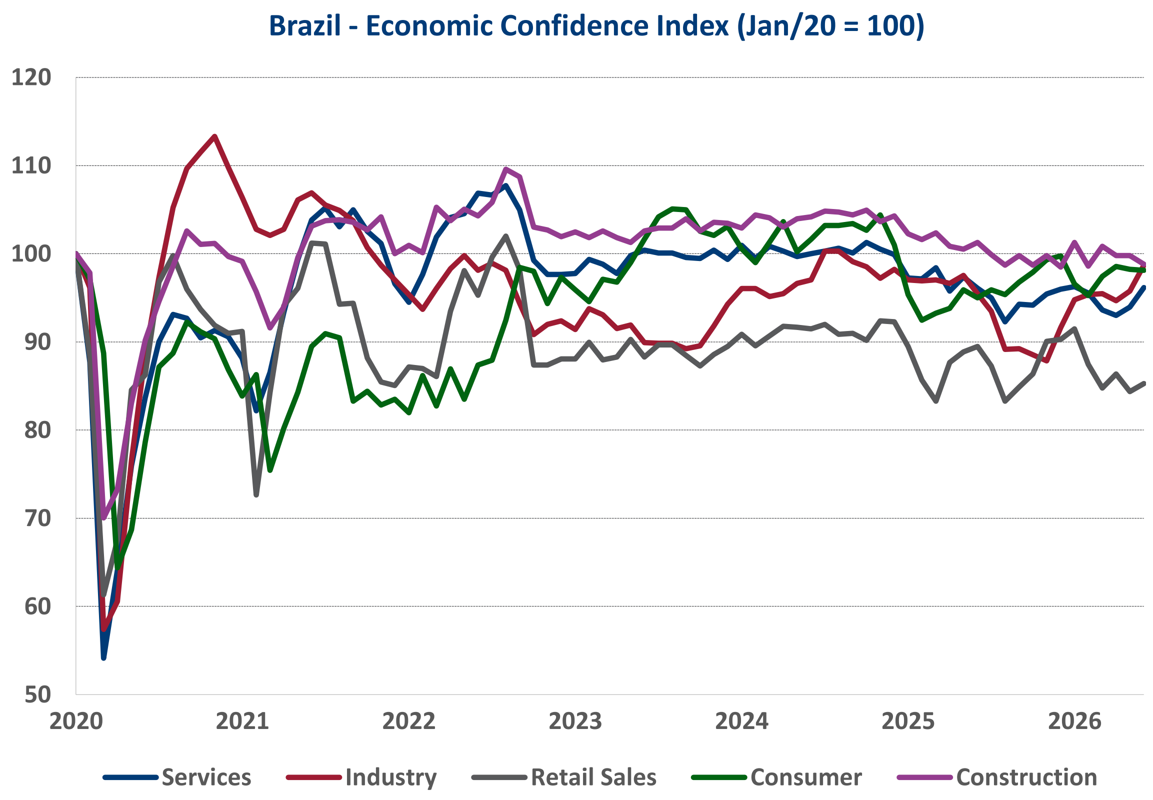
ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025	2026F	2027F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.4%	2.3%	2.0%	1.5%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	4.3%	5.4%	4.5%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.4%	6.2%	5.1%	5.6%	6.2%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.0%	14.00%	12.00%
External Accounts								
Trade Balance (US$ bn)	36	42	52	92	66	60	81	75
Current Account Balance (US$ bn)	-25	-40	-42	-28	-66	-69	-59	-58
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-3.0%	-3.0%	-2.4%	-2.3%
Fiscal Policy								
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.5%	-0.4%	-0.3%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	78.7%	82.1%	85.4%

Source: BOCOM BBM, IBGE

Brazil: Activity

- In May, industrial production declined 0.2% MoM, below market expectations (+0.3% MoM). Additionally, in April, services expanded 1.2% MoM, outperforming market expectations (+0.8% MoM), while broad retail sales disappointed, falling 0.7% MoM versus +0.2% expected. The broader set of indicators still points to a resilient economy, although there are gradual signs of moderation in economic activity. Meanwhile, the IBC-Br rose 0.5% MoM, slightly below market expectations (+0.6% MoM).
- Looking ahead, consumer and construction confidence surveys weakened in June, while the services, industrial and retail sectors posted gains.

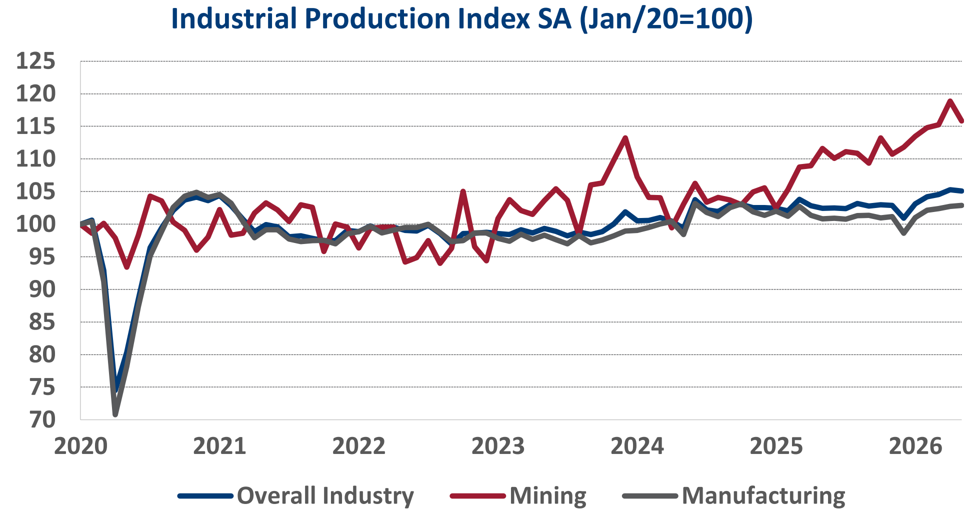


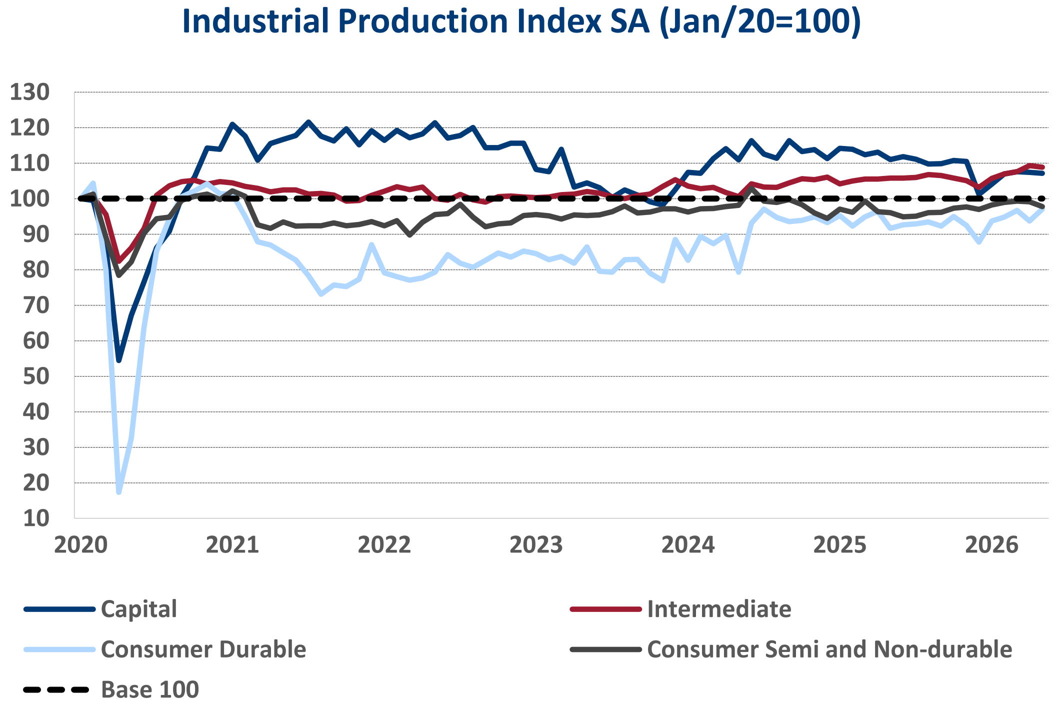


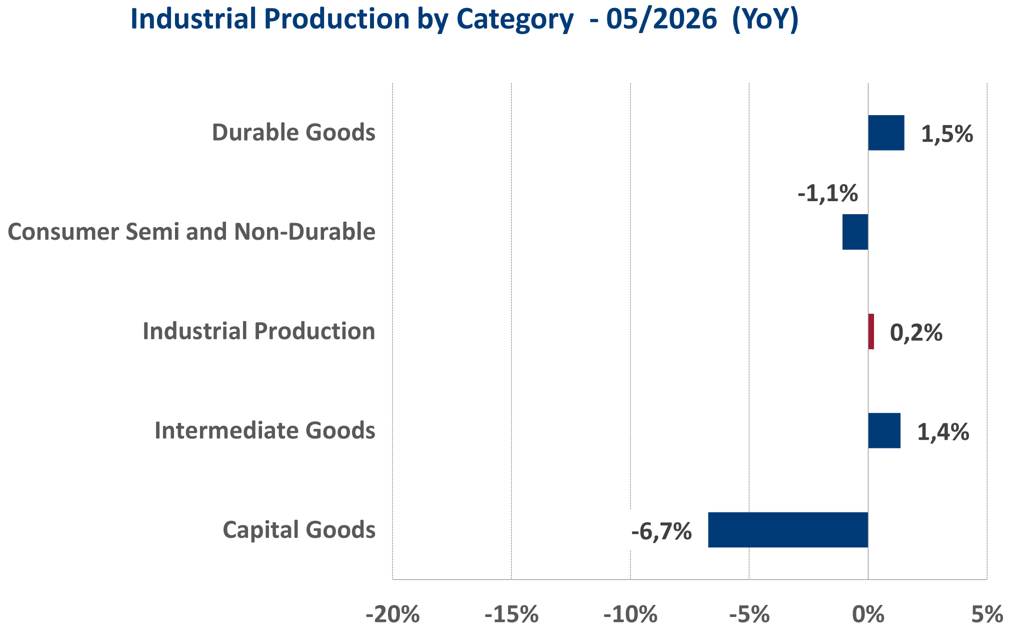
Source: BOCOM BBM, IBGE, FGV

Brazil: Industrial Production

- Industrial output fell 0.2% from April to May, below market expectations (+0.3% MoM). The extractive industry declined 2.6% MoM, partially reversing recent gains and driving the downside surprise in industrial production, while manufacturing output rose 0.1% MoM.
- Most economic categories decreased in May. On the brighter side, Durable Consumer Goods rose 3.6% MoM, remaining on an upward path. The result was driven by vehicle production, which increased 4.1% MoM and posted its fifth consecutive monthly gain, supported by the ongoing effects of the Carro Sustentável program.
- Meanwhile, investment-related indicators remained weak, with Capital Goods production, declining 0.2% MoM and 6.7% YoY, while Intermediate Goods fell 0.4% MoM, ending a four-month streak of gains, and Semi- and Non-Durable consumer goods dropped 1.3% MoM.



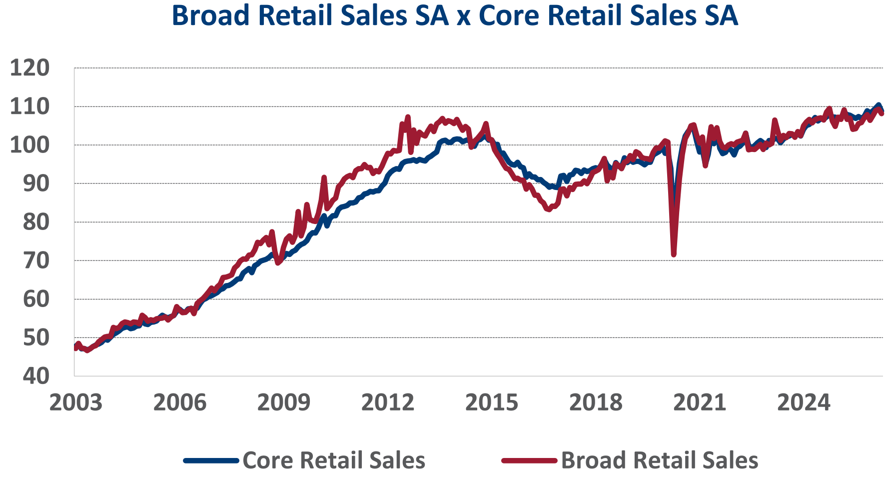


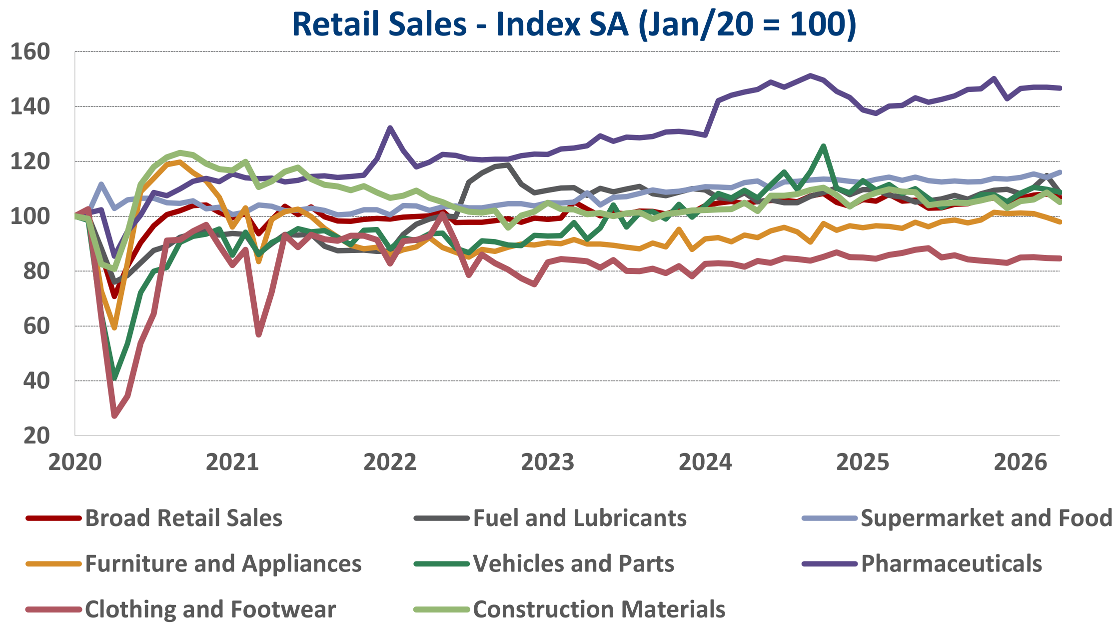


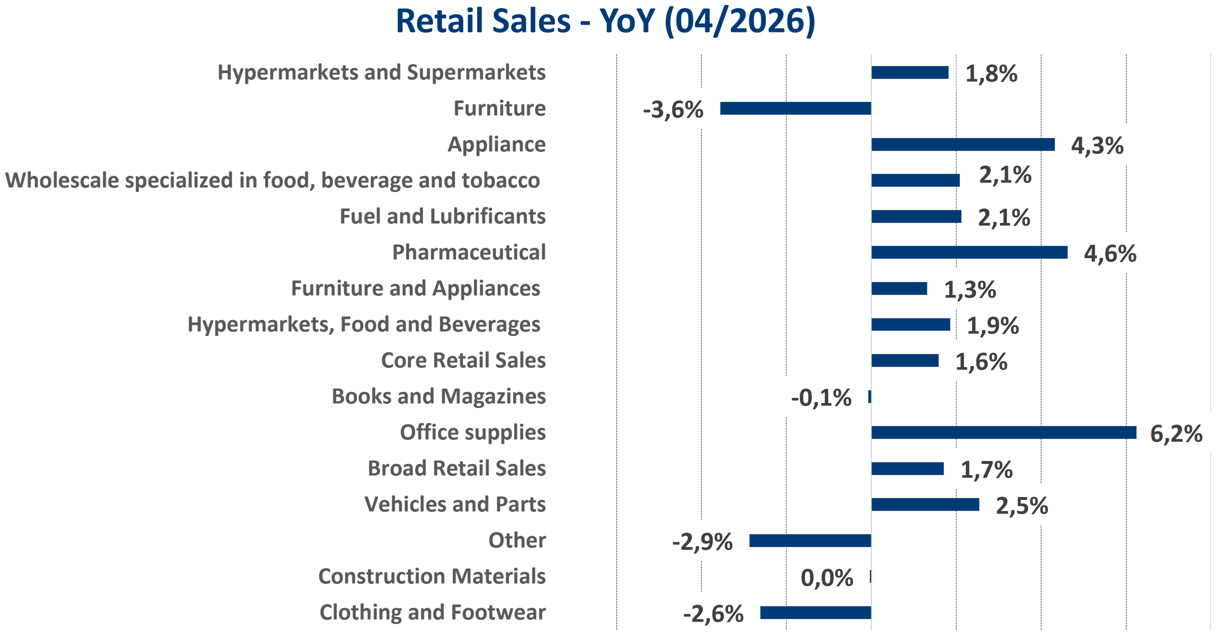
Source: IBGE, BOCOM BBM

Brazil: Retail Sales

- Broad retail sales fell by 0.7% MoM in April, below market expectations (+0.2% MoM), ending a streak of three consecutive gains. In turn, core retail sales decreased by 1.5% MoM, also worse than expected (-0.6% MoM).
- The decline in retail sales was widespread. The main drags were Fuels and Lubricants (-6.2% MoM), Other Personal and Household Articles (-4.6% MoM), Office, Computer and Communication Material and Equipment (-4.5% MoM), and Building Materials (-3.6% MoM). On the positive side, Supermarkets, Food Products, and Beverages rose 1.3% MoM, partially cushioning the headline decline.
- Despite the downside surprise in April, domestic activity is expected to maintain short-term momentum, supported by rising real disposable income amid a still-tight labor market and increasing fiscal transfers. In addition, a broad set of government stimulus measures should sustain personal consumption in the near term.



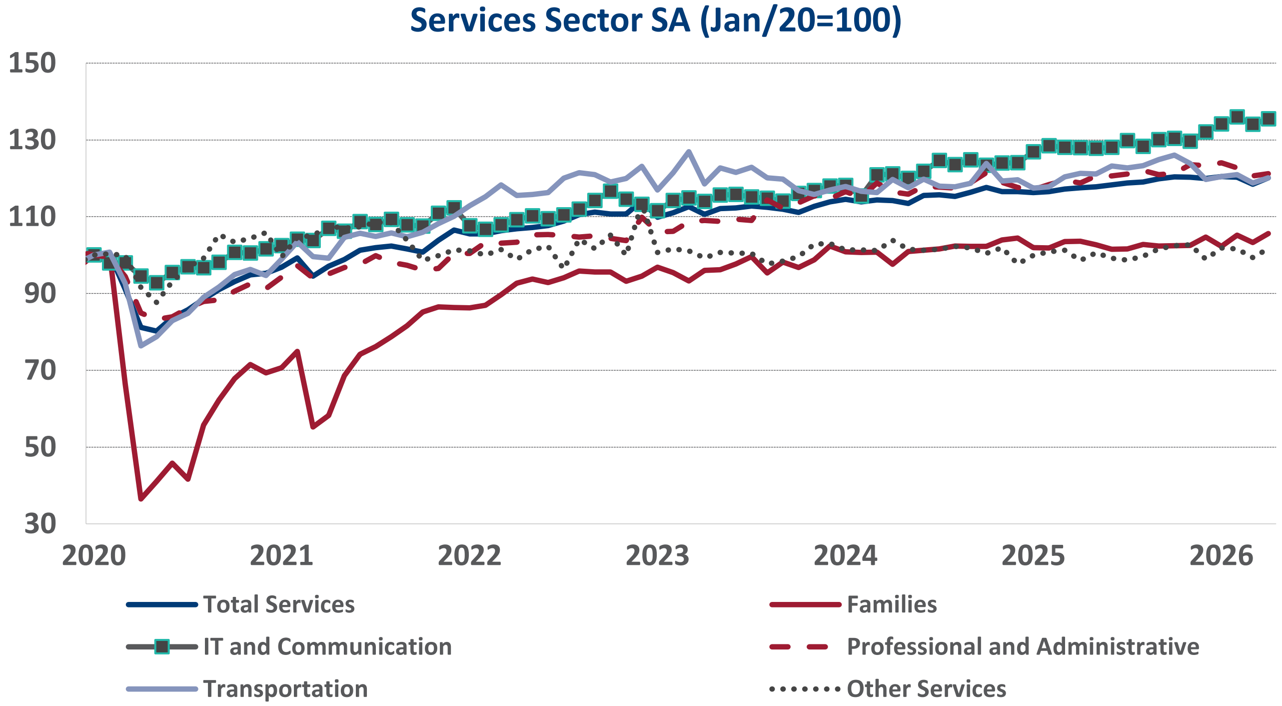


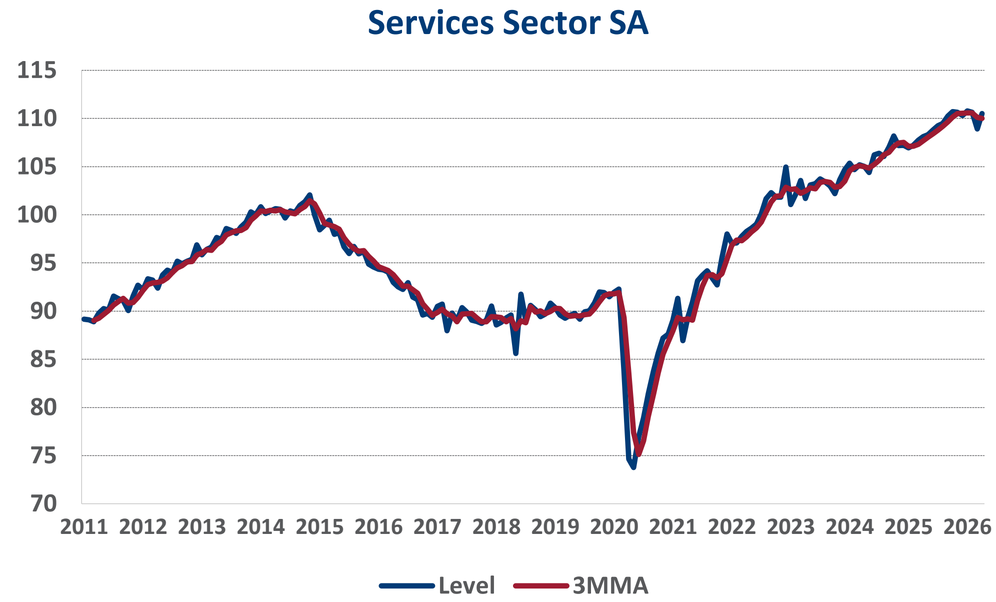


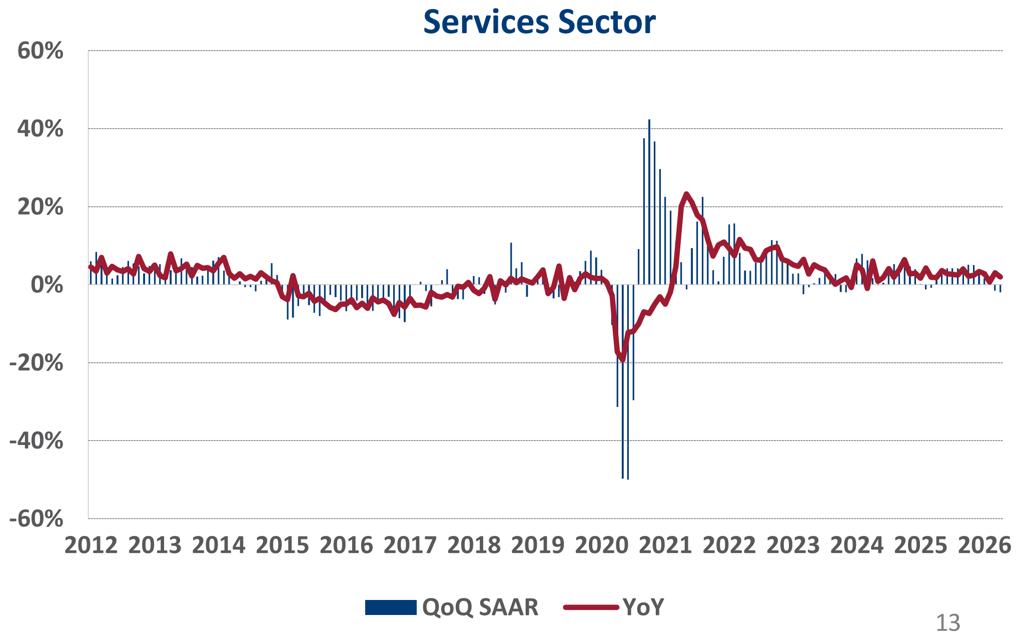
Source: IBGE, BOCOM BBM

Brazil: Services

- The services sector expanded 1.2% MoM in April, outperforming market expectations (0.8% MoM).
- The details were broadly positive in April. Information and Communication Services remained on a robust growth path, rising 0.5% MoM and 6.3% YoY, with IT Services standing out. Services Rendered to Families also posted a positive result, increasing 1.4% MoM and 2.7% YoY, while Other Services rose 2.2% MoM and 3.4% YoY.
- In contrast, Transportation and Storage Services remained the main drag in YoY terms, declining 1.4%, largely driven by a 12.0% drop in Air Transportation amid higher fuel costs linked to the Middle East conflict. The segment, however, posted a 0.9% MoM rebound in April, while Professional, Administrative, and Complementary Services rose 0.4% MoM (+1.2% YoY), pointing to mixed dynamics across subsegments.
- A still-robust labor market and government stimulus should support domestic demand in the near term, rising household debt service burdens remain a key drag, limiting discretionary spending and a more sustained pickup in services consumption.



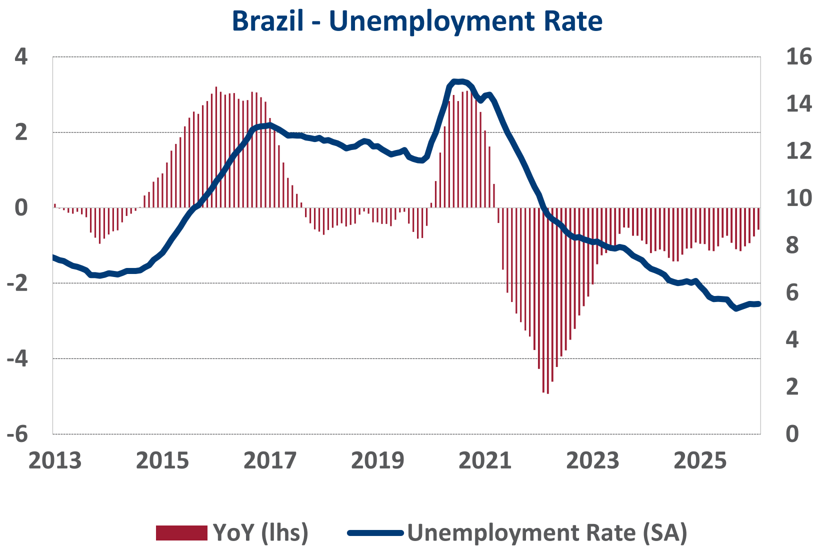


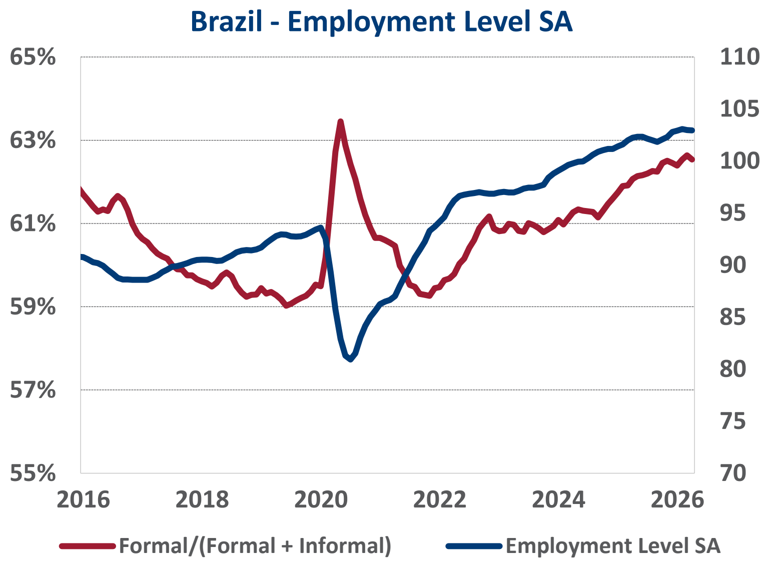


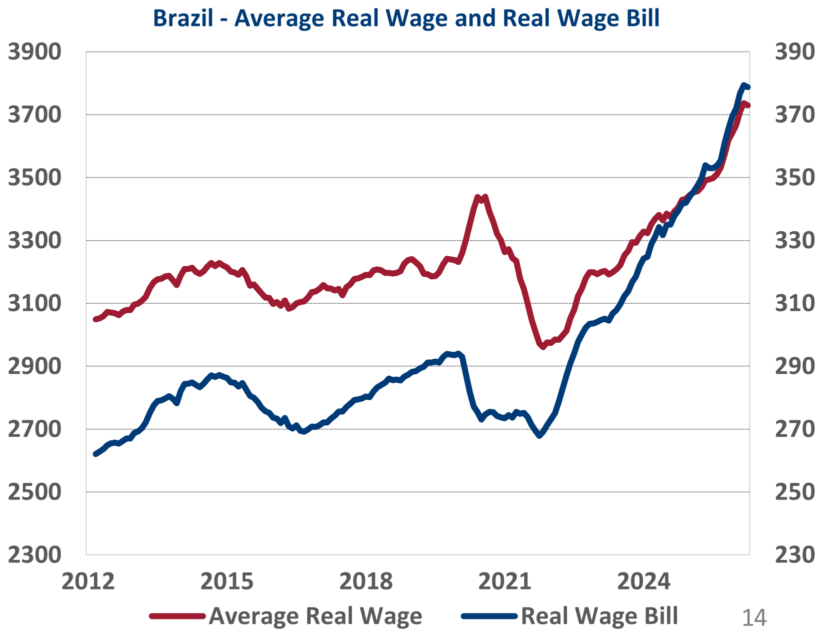
Source: IBGE, BOCOM BBM

Brazil: PNAD

- The unemployment rate dropped from 5.8% in the moving quarter up to April to 5.6% in the moving quarter up to May, in line with expectations and at an all-time low.
- Seasonally adjusted, the indicator inched down from 5.5% to 5.4%, remaining at historically low levels.
- Total employment edged up 0.1% MoM in May, reaching 103.1 million, marking the seventh consecutive monthly increase. On a year-over-year basis, employment increased 0.8%, taking the 12-month gain to 1.5%.
- The labor force participation rate remained at 62.1%, still well below pre-pandemic levels of around 63.5%.
- The effective average real labor income decreased 0.5% MoM in May, to approximately BRL 3,860 per month, losing steam for the second month in a row. It was still up 4.2% YoY and 3.9% over the past 12 months.
- Real aggregate labor income, which combines average labor earnings and total employment, declined 0.5% MoM, while still expanding 4.8% YoY and 6.1% over the past 12 months.
- Overall, the latest PNAD data showed some signs of cooling in employment and income. However, the labor market remains tight, with the unemployment rate well below its neutral level.



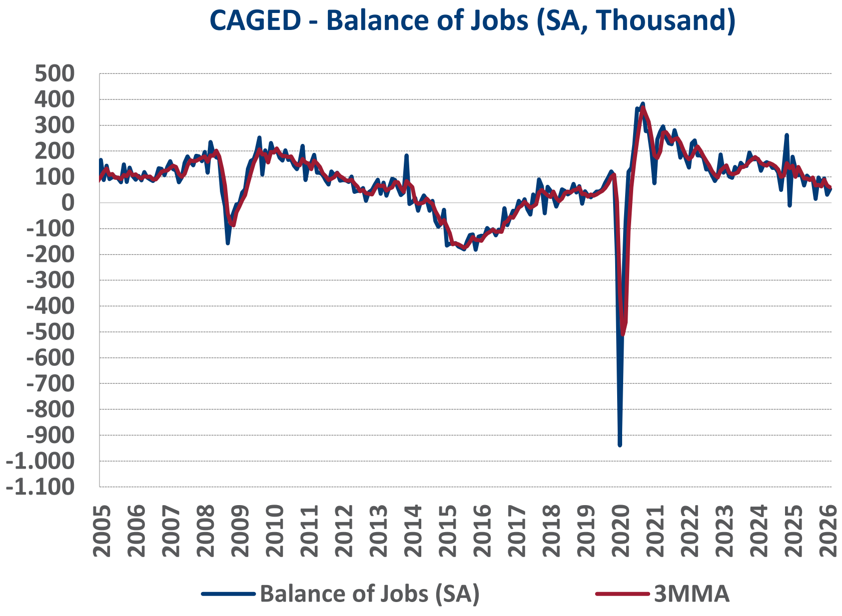


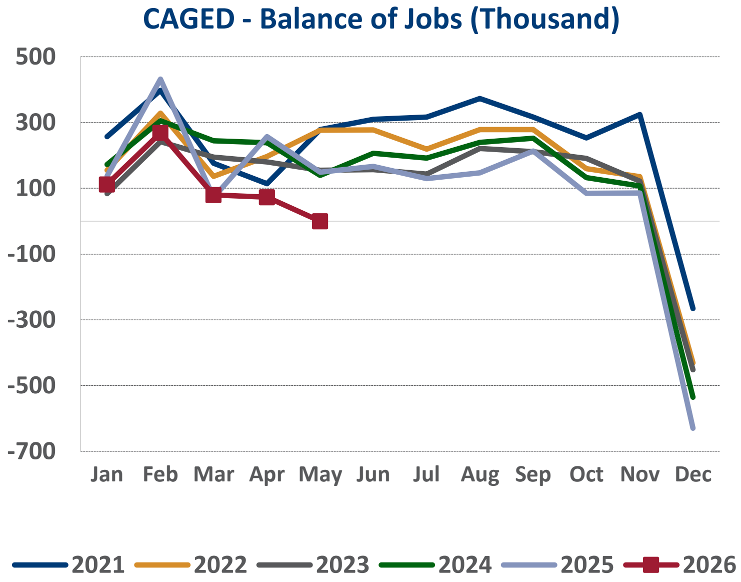


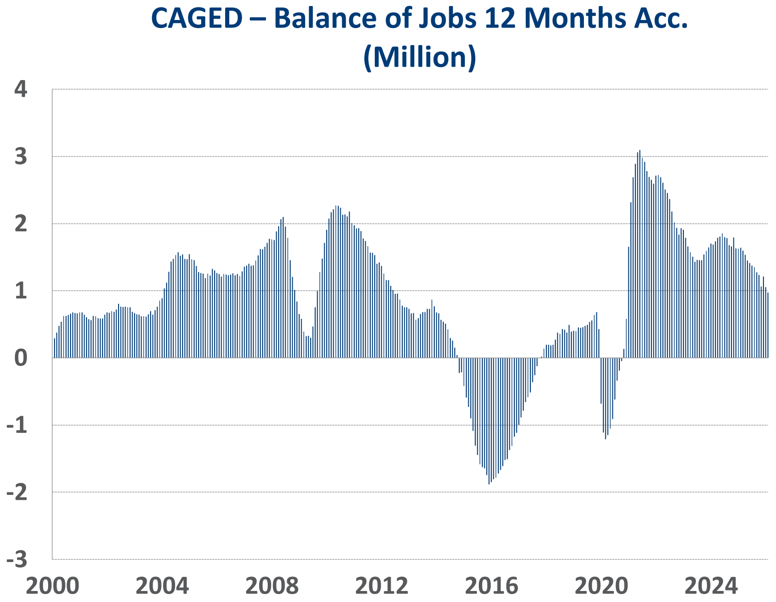
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- CAGED registered a net creation of 73.0k formal jobs in May, well below market expectations (130.0k).
- There was a net creation of 973.3 thousand jobs in the 12-month rolling sum up to May 2026, below the 1.053 million posted in the previous reading.
- Overall, formal employment surprised to the downside, showing signs of a gradual slowdown in the labor market.







Source: BOCOM BBM, MTE

Brazil: GDP Forecast

- We maintained our forecast for 2026 at 2.0%
- Growth must decelerate through the second semester: from an average of 0.8% QoQ in H1 to 0.3% QoQ in H2

Forecasts				
	2026.II QoQ	2026.II YoY	2026	2027
GDP	0.5%	2.0%	2.0%	1.5%
Agriculture	**0.3%**	**2.0%**	**1.2%**	**5.0%**
Industry	**0.1%**	**1.1%**	**1.4%**	**0.6%**
Mining	-0.7%	6.1%	7.7%	2.5%
Manufacturing	0.1%	-0.2%	-0.2%	0.1%
Electricity	-0.5%	0.3%	0.5%	2.6%
Construction	0.0%	1.4%	1.7%	-1.0%
Services	**0.6%**	**2.3%**	**2.3%**	**1.5%**
Retail	0.2%	1.1%	1.1%	0.6%
Transports	0.9%	1.0%	1.1%	0.3%
Information and Comunication	0.3%	6.1%	5.8%	3.5%
Financial Services	0.8%	2.9%	2.9%	2.0%
Rents	0.8%	3.0%	3.1%	3.1%
Other Services	0.9%	2.6%	2.8%	1.3%
Public Administration	0.3%	1.8%	1.4%	1.0%

Source: BOCOM BBM, IBGE

Brazil: Central Government Primary Result

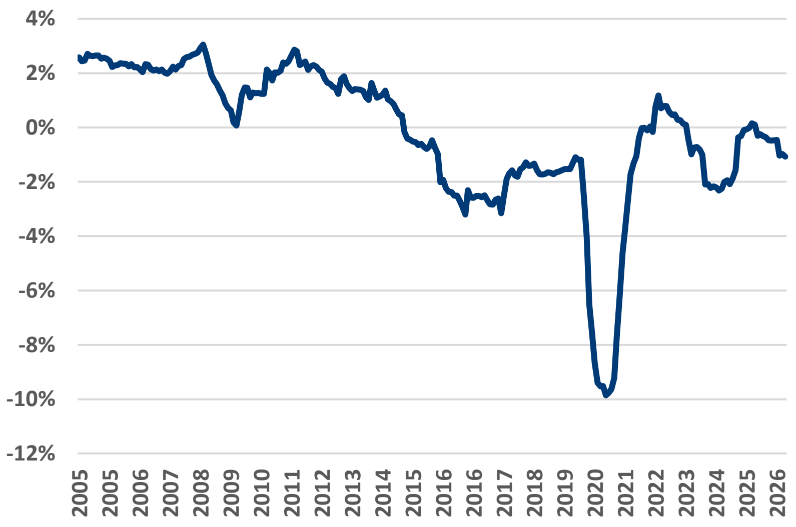
- The Central Government posted a primary deficit of BRL 53.3 billion in May, slightly above market expectations (BRL 53.2 billion) and worse than the result observed in the same month last year (a deficit of BRL 40.2 billion).

- Net revenues increased by 5.5% in real terms compared to May last year. Revenues administered by the Federal Revenue Service (RFB) rose 10.4%, supported mainly by strong corporate income tax collections (IRPJ/CSLL, +30.4%), driven by higher oil prices and one-off effects. Personal income tax (+16.7%) also contributed, reflecting stronger collections from annual tax filings, alongside PIS/Cofins (+8.0%), in line with continued growth in retail sales and services. In addition, other RFB-administered revenues surged 72.8%, largely due to taxation on crude oil exports. Social security contributions increased 5.3%, consistent with a still-resilient labor market. On the other hand, non-administered (non-tax) revenues declined by 15.3%, mainly reflecting a sharp drop in dividends and equity participations (-76.4%), largely due to lower transfers from BNDES.

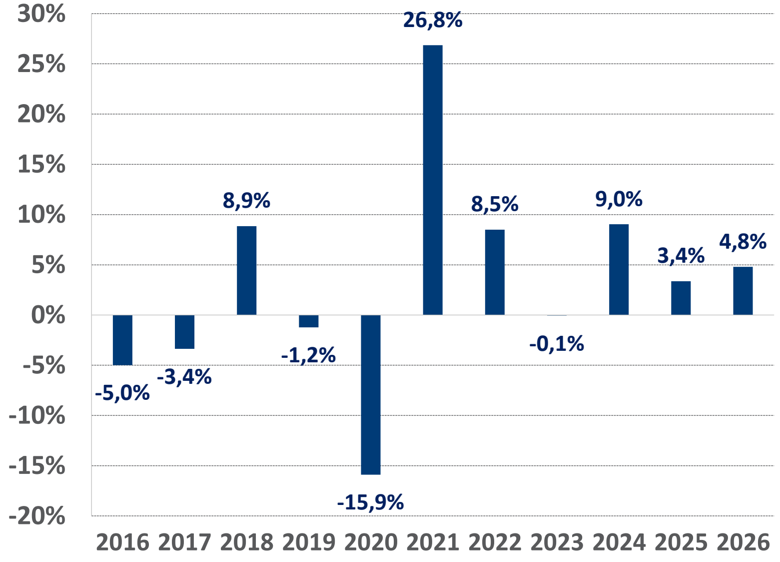
- Total expenditures rose 9.9% in real terms year-over-year, primarily driven by discretionary spending (+128.6%), reflecting stronger execution in the first half of the year, in line with the typical pattern observed during electoral cycles. Higher social security benefits (+4.2%) and extraordinary credits (+509.3%) also contributed, the former reflecting increased benefit approvals (as evidenced by the reduction in the backlog of applications), and the latter related to the contribution to the FGI in May 2026. Year-to-date, total spending has grown 13.0%, led by social security benefits (+9.5%), discretionary expenditures (+58.8%), and personnel costs (+11.9%).

- Looking ahead, revenue performance is expected to remain strong, supported by sustained high oil prices and the continued rollout of revenue-enhancing measures. A significant share of these gains is likely to be absorbed by higher spending on social security and BPC/LOAS, as well as by measures aimed at mitigating the impact of the Middle East conflict on fuel prices, although recent developments suggest these measures may gradually lose relevance in the near term.

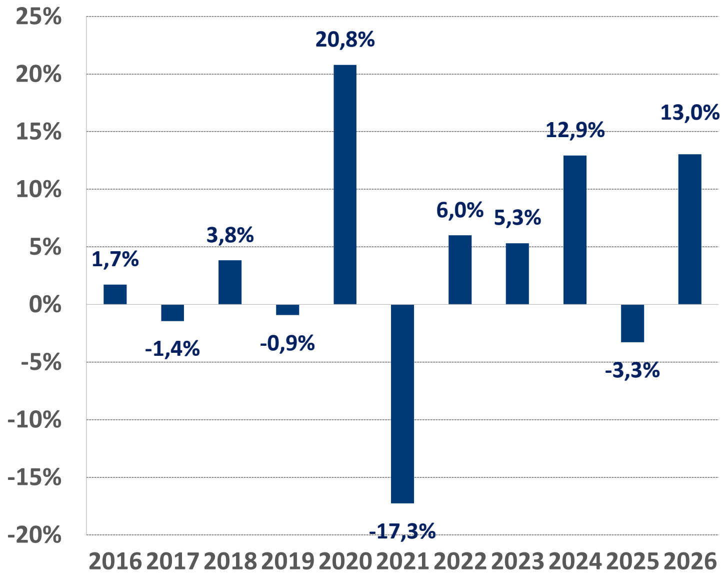
Central Government Primary Result (% GDP)



Net Revenue (YTD Real, %)



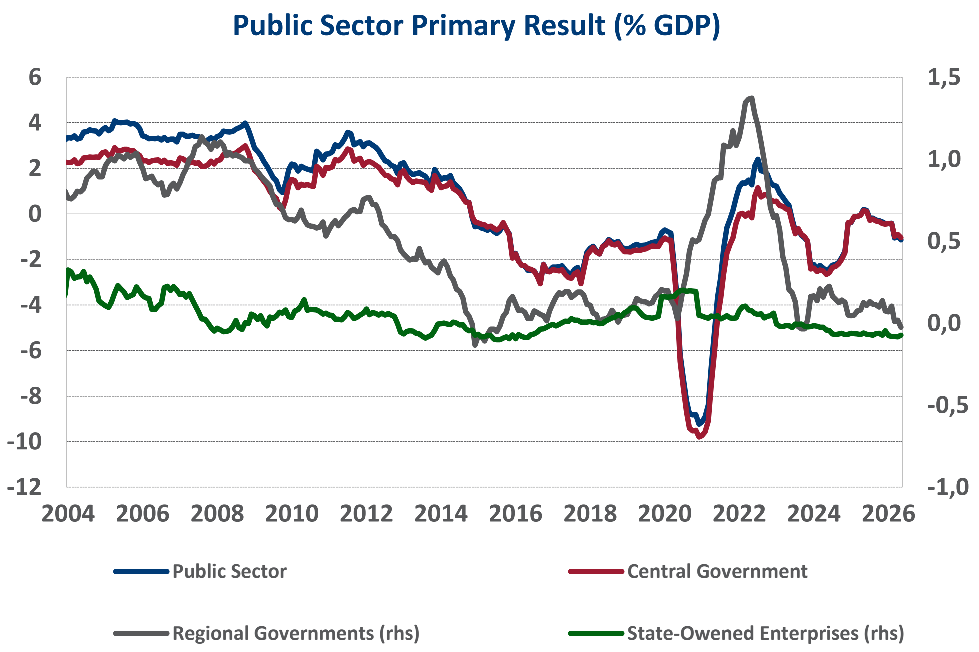
Expenditure (YTD Real, %)

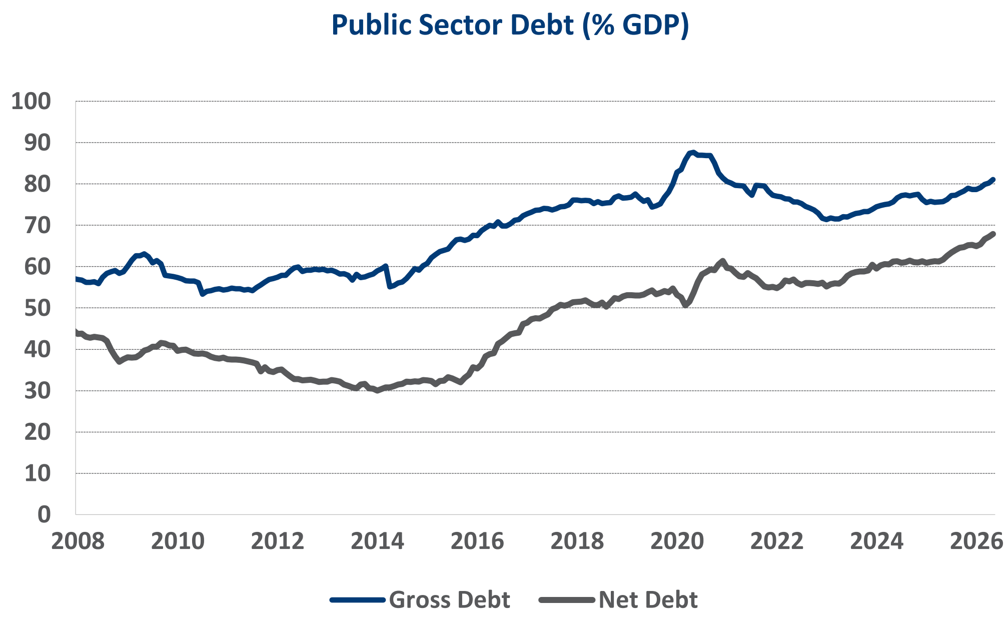


Source: BOCOM BBM, RTN

Brazil: Consolidated Public Sector Budget

- The consolidated public sector posted a primary deficit of BRL 56.1 billion in May, above the BRL 33.7 billion deficit recorded in the same month of 2025. The result came in above both market consensus of BRL 53.0 billion. Year-to-date, the public sector has posted a deficit of BRL 24.9 billion, while over 12 months it posted a deficit of BRL 149.0 billion, equivalent to 1.1% of GDP.
- Regarding the breakdown, the central government and regional governments posted deficits of BRL 55.2 billion and BRL 1.2 billion, respectively, while state-owned enterprises posted a surplus of BRL 0.3 billion.
- General Government Gross Debt rose from 80.2% of GDP to 81.1% of GDP, pressured by nominal interest payments (+0.9 p.p.) and net issuances (+0.4 p.p.), partially offset by nominal GDP growth (-0.5 p.p.). Over 12 months, the GGGD increased by 5.3 p.p., mainly due to nominal interest payments (+9.4 p.p.). The Public Sector Net Debt advanced by 0.7 p.p. of GDP to 67.9% of GDP. Over 12 months, the PSND rose by 6.2 p.p..
- Overall, the fiscal result remained weak in May, with the wider deficit mainly reflecting stronger discretionary spending and social security benefits, alongside high nominal interest expenses. Public debt continues to follow an upward trajectory, as elevated interest costs and insufficient primary surpluses continue to pressure debt dynamics.

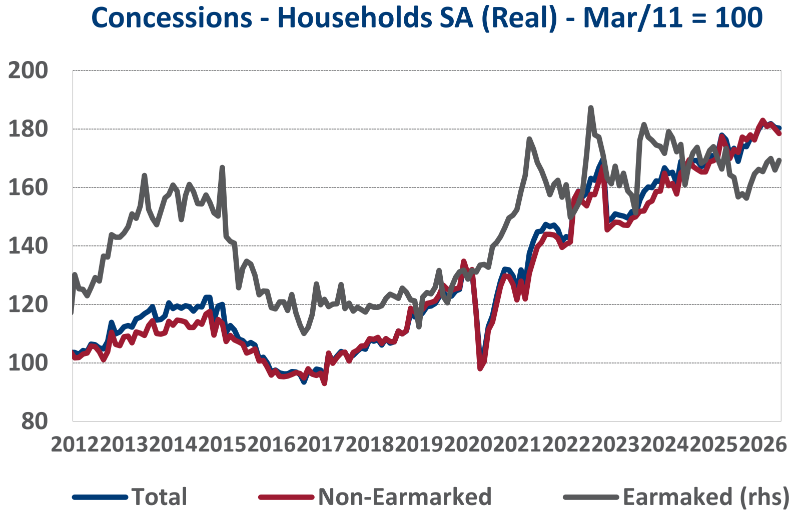


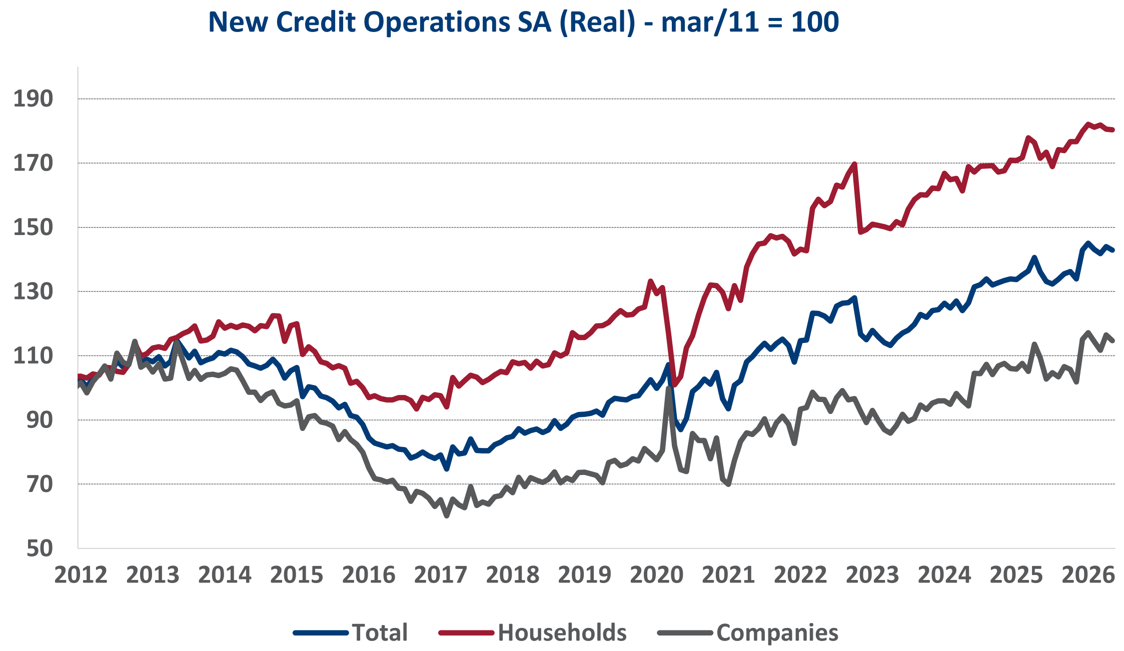


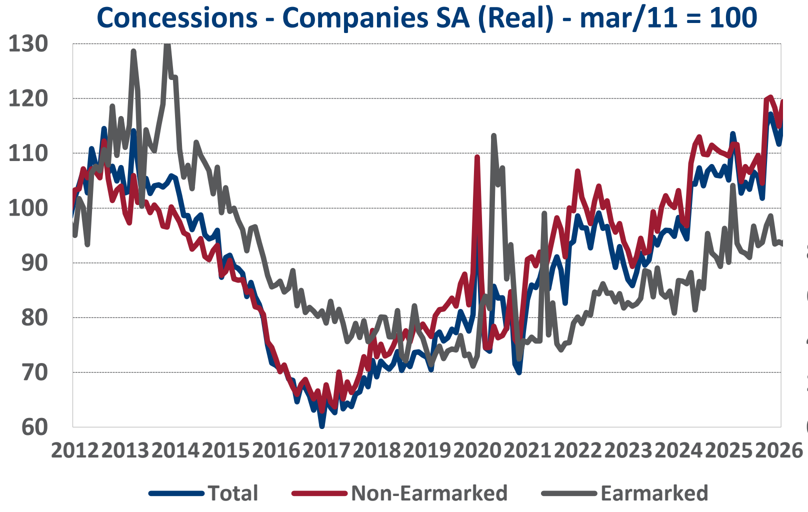
Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- In May, total credit concessions decreased by 0.8% MoM in real terms, after increasing by 1.5% in the last month.
- In real terms, non-earmarked credit concessions contracted 0.1% MoM to households and fell by 1.5% to companies in the monthly comparison.
- Credit dynamics reinforced a picture of weaker credit impulse.





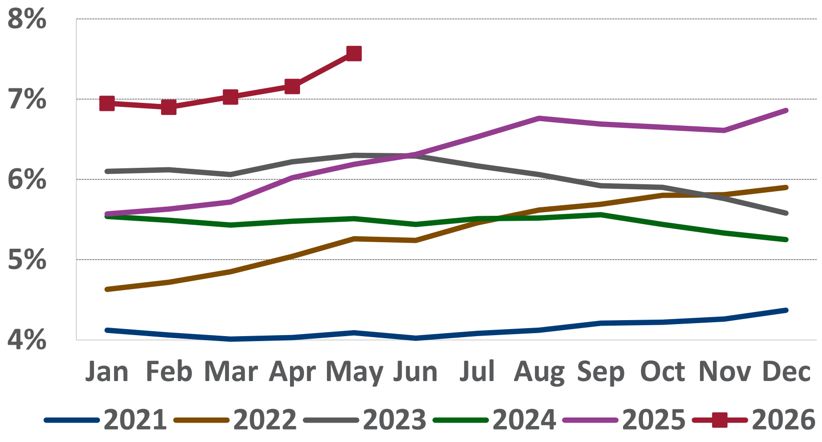


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- Lending rates eased slightly in May but remained elevated. Rates for households declined to 38.88% from 39.03% in April, while rates for companies fell to 21.57% from 22.25%.
- Meanwhile, delinquency on non-earmarked loans for households reached 7.57% in May, additionally for companies, it expanded from 3.57% to 4.10%.

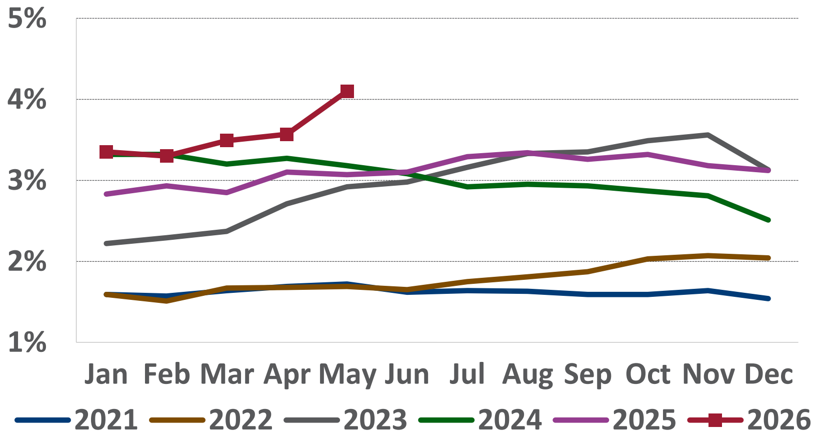
Non-Earmarked Delinquency - Households (%)



Interest Rates - Households (%)

Interest Rates - Companies (%)

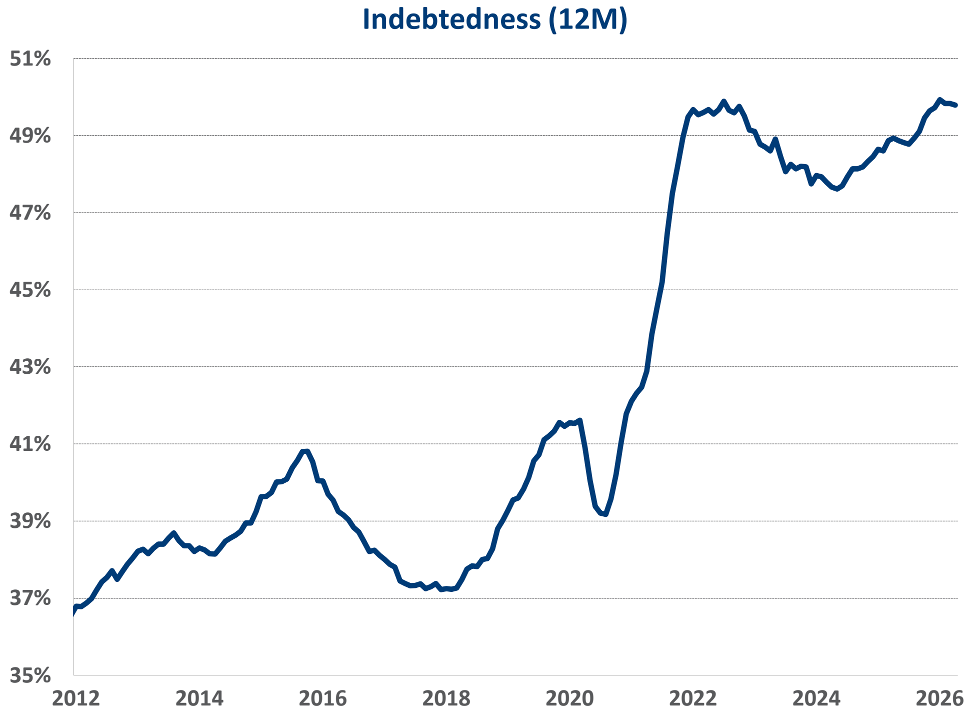
Non-Earmarked Delinquency - Companies (%)

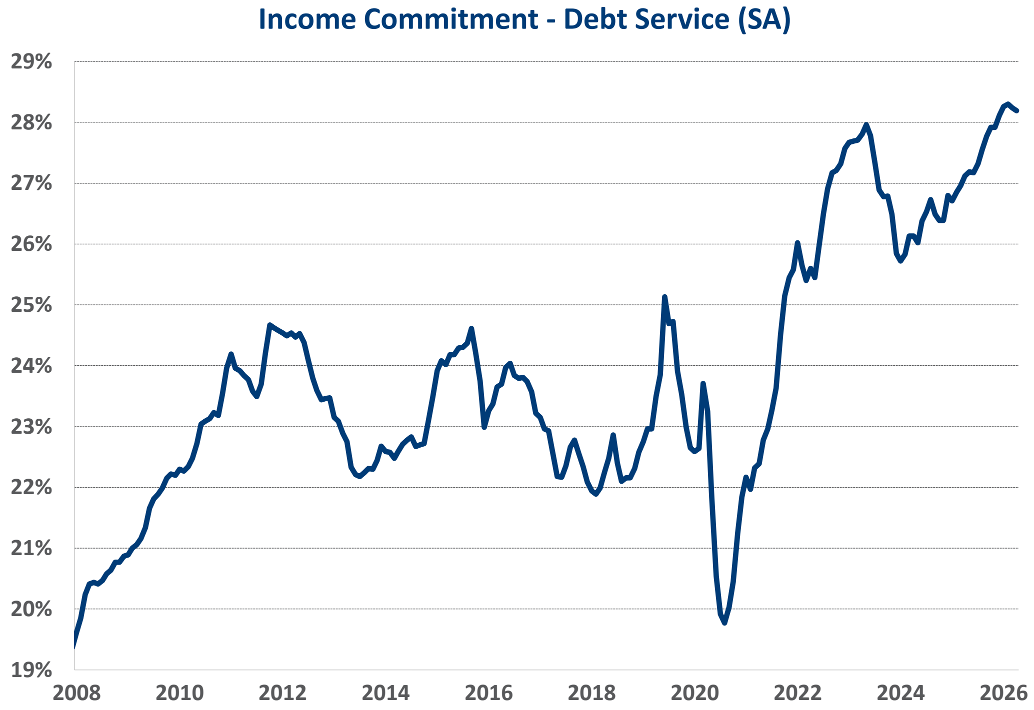


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- Total household indebtedness remains high, despite a slight decrease at the margin, standing at 49.79% in April.
- Meanwhile, income commitment fell to 28.19%.
- Credit conditions remain restrictive, reflecting still-high interest rates, rising delinquency, and elevated household indebtedness and income commitment.

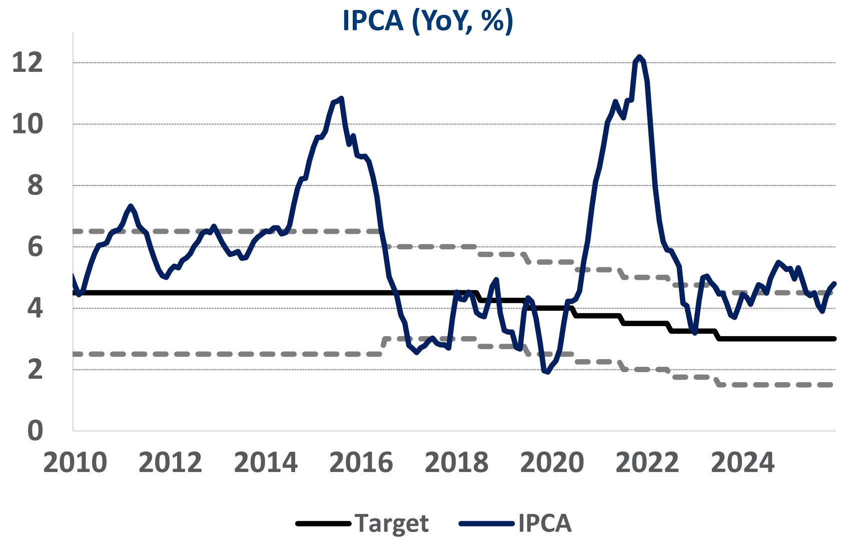


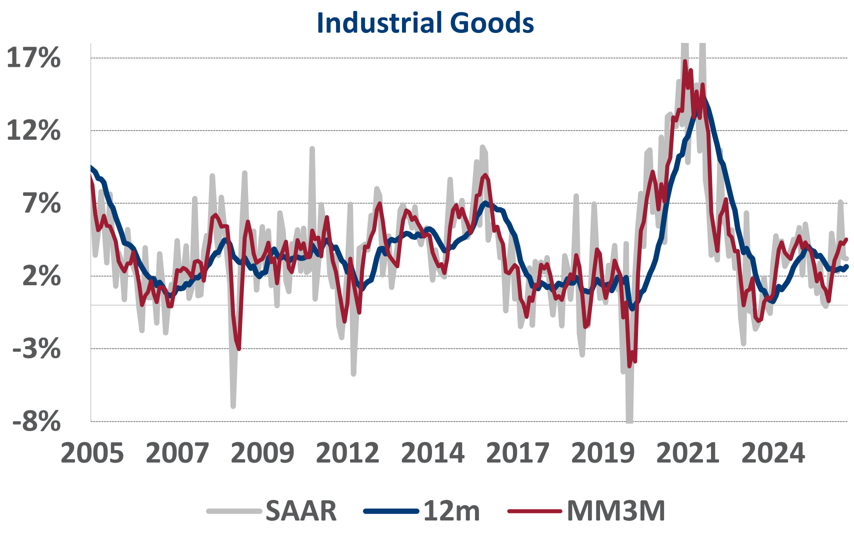


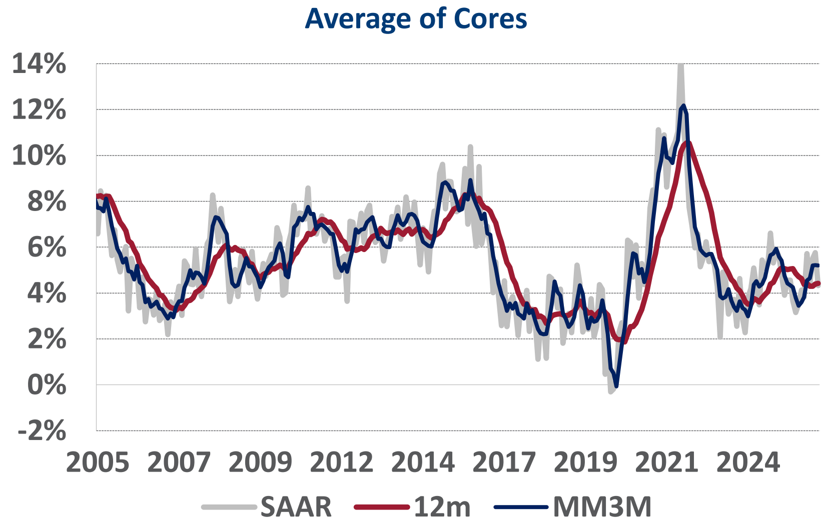
Source: BOCOM BBM, BCB

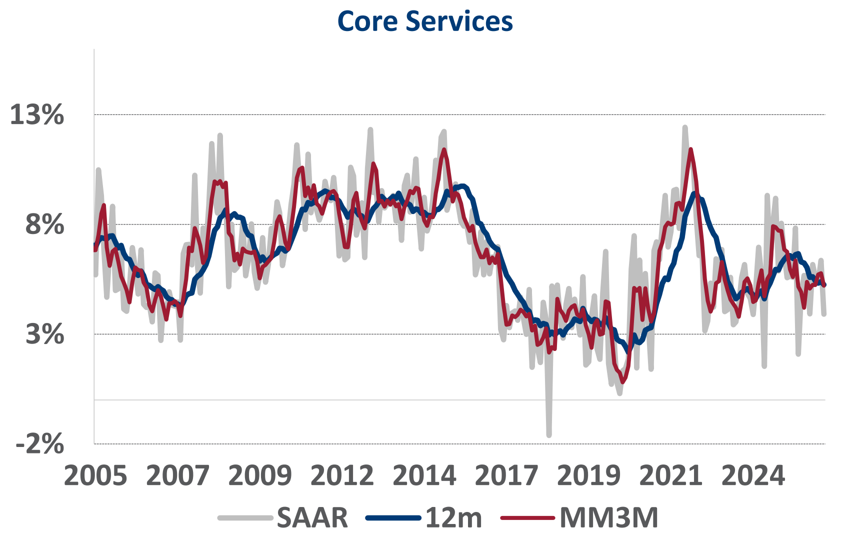
Brazil: Inflation 2026

- June IPCA-15 rose 0.41% MoM, below market expectations (0.44% MoM). The 12-month accumulated inflation accelerated from 4.64% to 4.80%.
- The main downward surprises relative to our forecast came from food at home.
- Core services inflation increased 0.27% MoM, with the 3M SAAR declining from 6.1% to 5.3%, remaining well above the inflation target.
- The average of core inflation measures rose 0.34% MoM, with the 12-month rate at 4.42%.
- Looking ahead, inflation should remain under pressure, particularly in services and industrial goods. Food prices should present some near-term easing and partial relief from fuel costs.





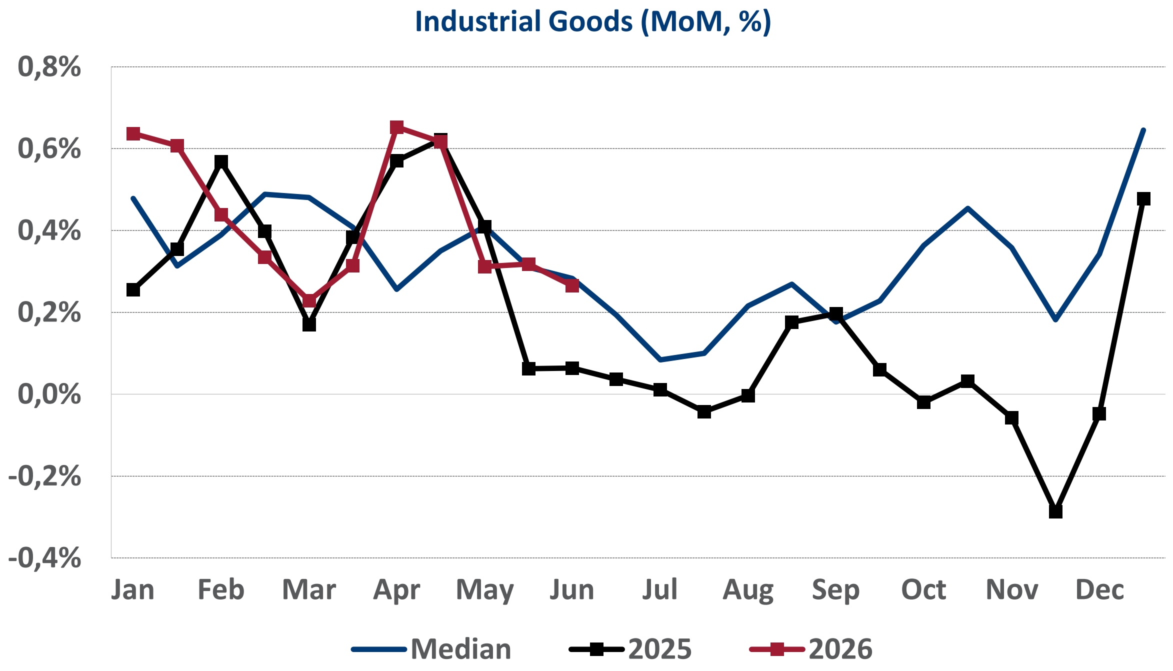


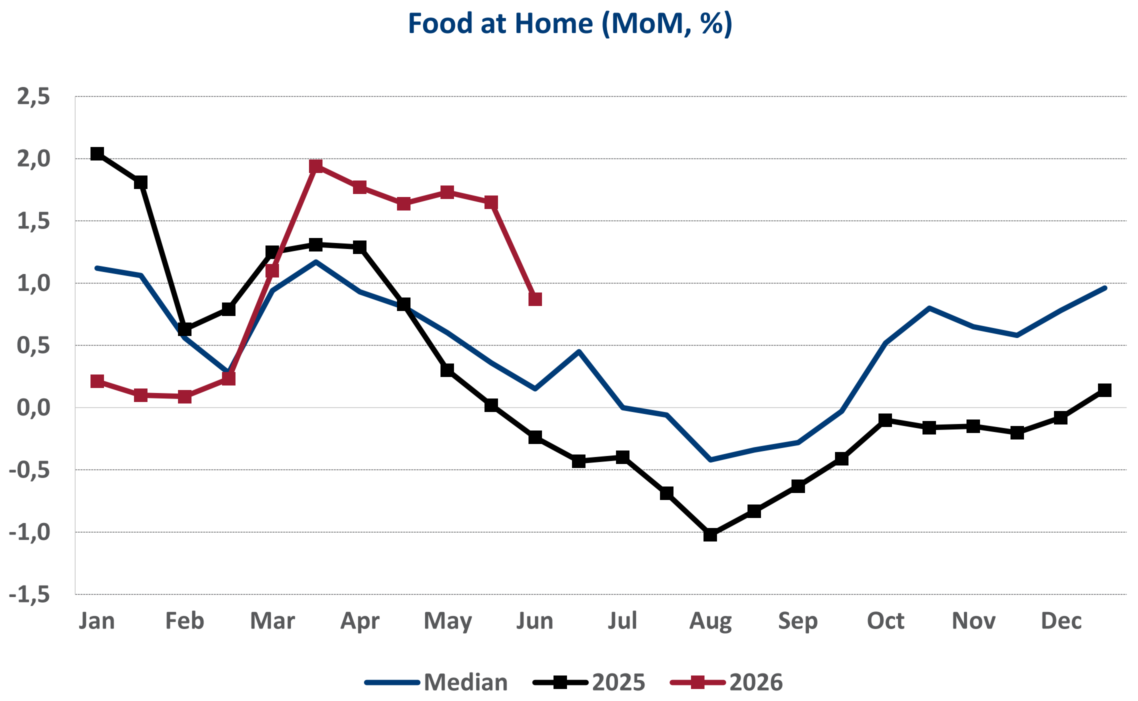


Source: BOCOM BBM, IBGE

Brazil: Inflation 2026

- Industrial goods prices rose 0.26% MoM, modestly below expectations, while underlying industrial goods inflation remains under pressure, with the 3M SAAR accelerating to 6.47% in June.
- Food prices increased 0.87% MoM, below market expectations (1.11% MoM), with the main highlight being the unexpected decline in beef prices.
- Food inflation is expected to remain under pressure throughout 2026, with a stronger acceleration in 4Q26 as the effects of El Niño intensify.





Source: BOCOM BBM, IBGE

Brazil: Inflation Outlook

- We maintained our inflation forecast at 5.4% for 2026 and 4.5% for 2027
- **Higher inertial inflation from 2026, worst scenario for food inflation due to El Niño conditions and higher industrial goods inflation are the main drivers for high inflation next year despite the tight monetary policy**

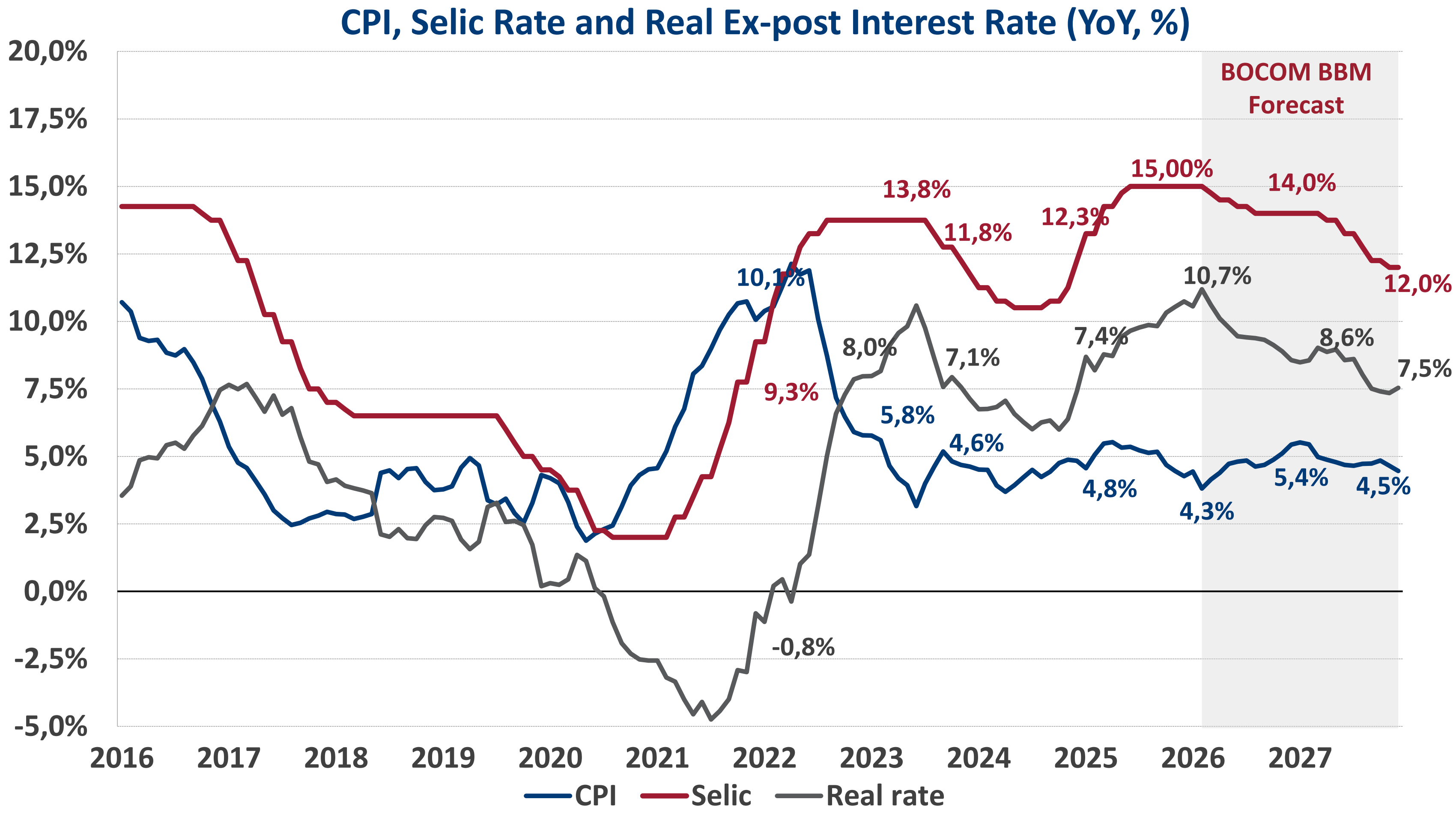
IPCA (%, annual)

	Weight	2021	2022	2023	2024	2025	2026	2027
Regulated	**26.6**	**16.9**	**-3.8**	**9.1**	**4.7**	**5.3**	**5.2**	**4.2**
Industrial goods	**23.6**	**11.9**	**9.5**	**1.1**	**2.9**	**2.4**	**4.1**	**3.4**
Durable goods	10.3	12.9	6.1	-0.4	1.5	0.5	2.7	2.0
Semi-durable goods	5.9	10.2	15.7	2.7	2.1	3.5	2.5	3.2
Non-durable goods	7.3	11.9	9.5	1.7	5.4	3.9	7.2	5.3
Food at home	**15.7**	**8.2**	**13.2**	**-0.5**	**8.2**	**1.4**	**7.3**	**5.0**
Services	**34.1**	**4.8**	**7.6**	**6.2**	**4.6**	**5.8**	**5.7**	**5.0**
Food away from home	5.6	7.2	7.5	5.3	6.3	7.0	6.8	5.7
Related to minimum wage	5.2	3.3	6.2	5.5	5.2	6.7	6.0	4.6
Sensitive to economic activity	8.2	5.1	6.3	9.5	0.9	5.4	5.5	4.2
Inertial	15.0	4.2	8.8	5.1	6.0	5.2	5.0	4.9
IPCA		**10.1**	**5.8**	**4.6**	**4.8**	**4.3**	**5.4**	**4.5**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

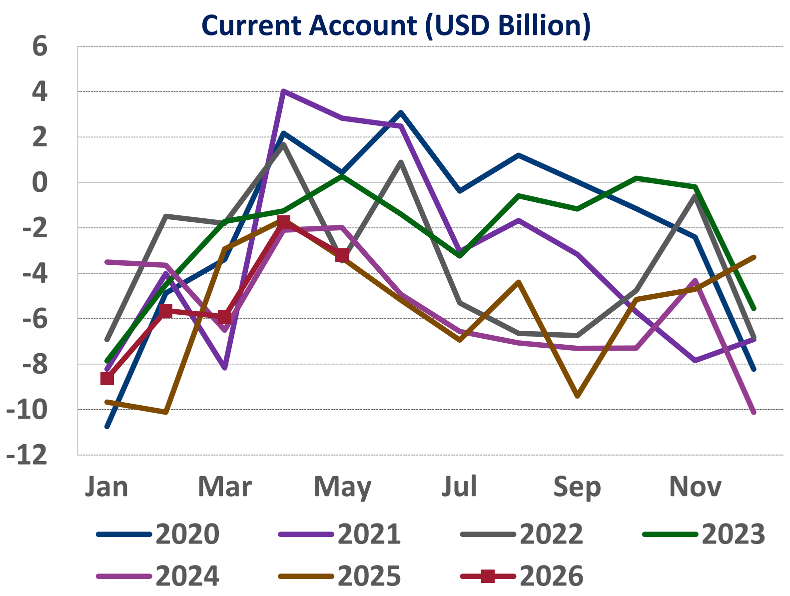
- In the June meeting, the Monetary Policy Committee reduced the Selic rate by 25bps to 14.25%, in line with expectations. Inflation projections six quarters ahead increased from 3.5% to 3.7% in 4Q27, under a scenario in which rates decline to 13.75% in 2026 and 12% in 2027. Despite the move, the statement carried a distinctly hawkish tone, acknowledging a deterioration in the inflation backdrop, with headline inflation above the upper bound of the target range, core measures re-accelerating, and expectations becoming further unanchored. Against this backdrop, however, the Committee signaled a preference for a less aggressive policy path, opting for a smoother adjustment rather than an upfront adjustment. Central to this strategy is an implicit extension of the relevant policy horizon to 1Q28, when inflation is expected to fall to around 3.2%, partly reflecting a sharper reversal of recent supply shocks, including the dissipation of El Niño effects. While the Committee remains data-dependent and retains flexibility, the overall message is that room for further easing has narrowed materially, with the baseline pointing to just one additional 25bps cut followed by a pause.

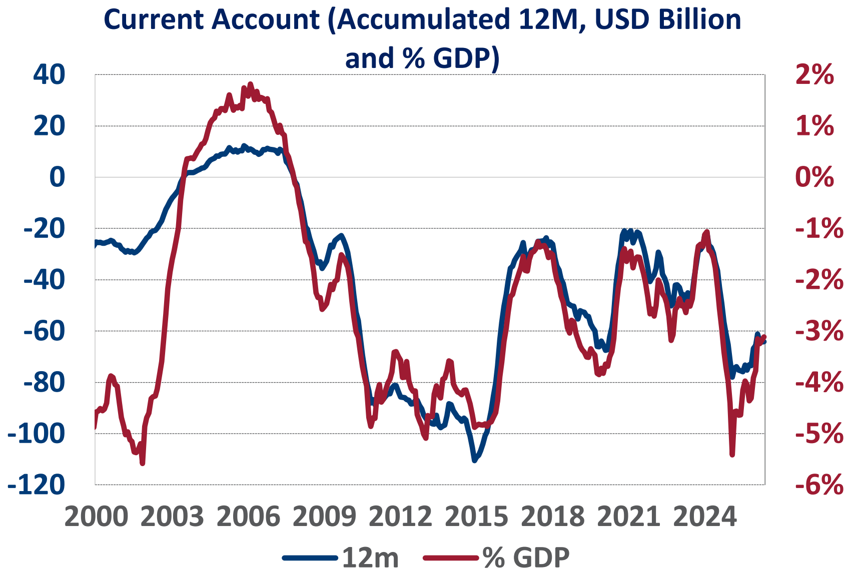


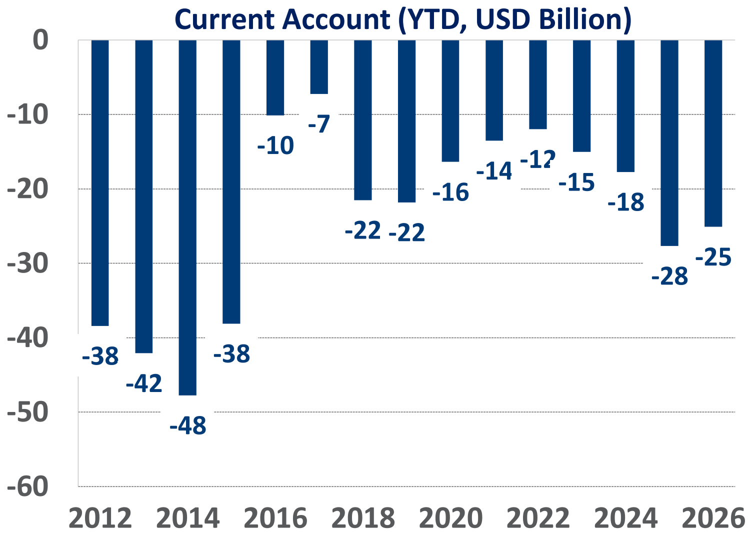
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account posted a deficit of USD 3.2 billion in May 2026, better than expected by the market (USD 4.5 billion)
- On a 12-month rolling basis, the current account deficit narrowed slightly to USD 64.3 billion, equivalent to 2.60% of GDP, from USD 64.3 billion and 2.65% of GDP in April.



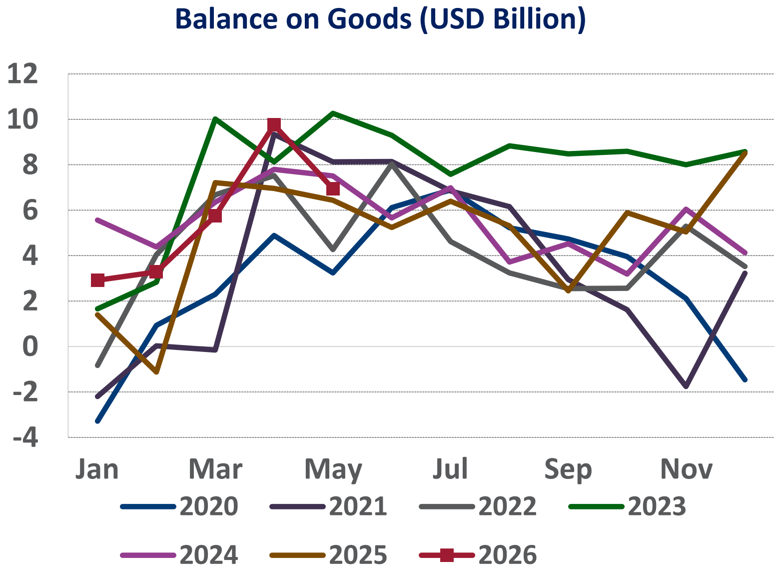


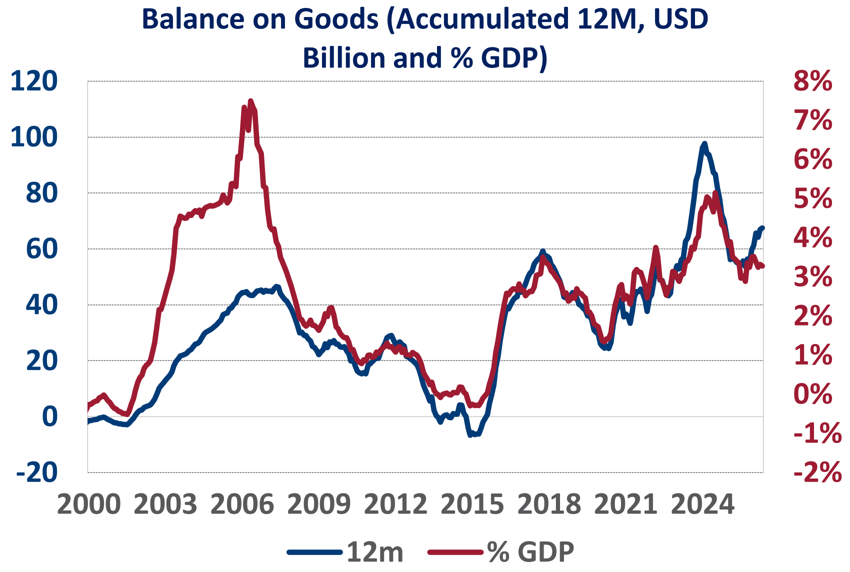


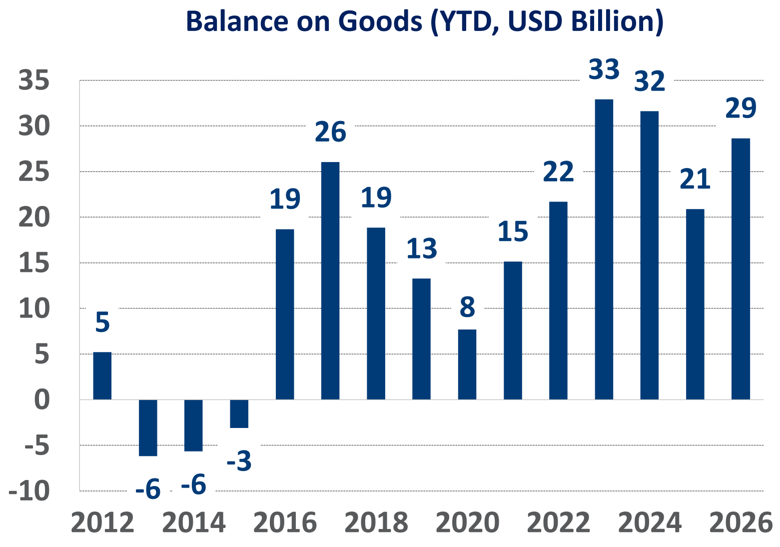
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The merchandise trade balance recorded a surplus of USD 7.0 billion in May, above the USD 6.4 billion surplus recorded in May 2025.
- Exports totaled USD 32.0 billion, up 6.4% YoY, supported by soybeans and copper ore. Imports reached USD 25.1 billion, up 5.9% YoY, driven primarily by consumer goods, partly reflecting front-loading of vehicle imports ahead of the tariff increase scheduled for July 1.
- On a 12-month rolling basis, the trade surplus reached USD 67.5 billion, the highest level since late 2024.



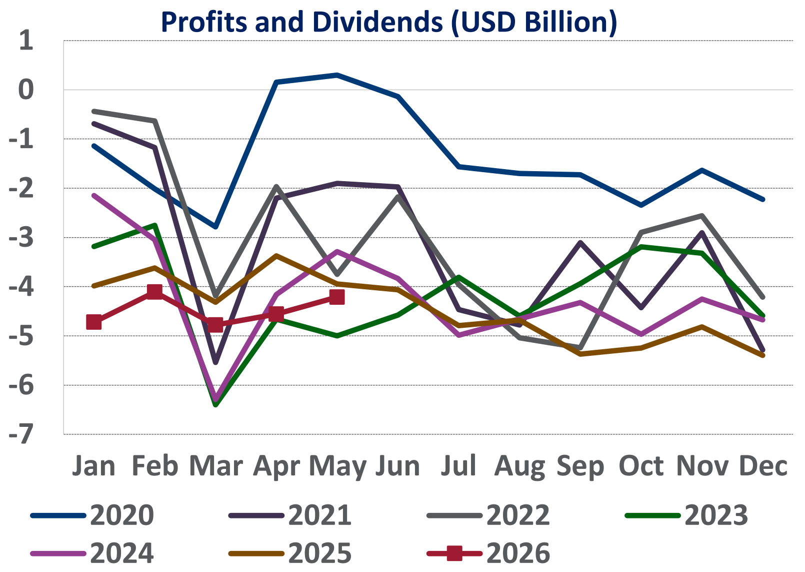


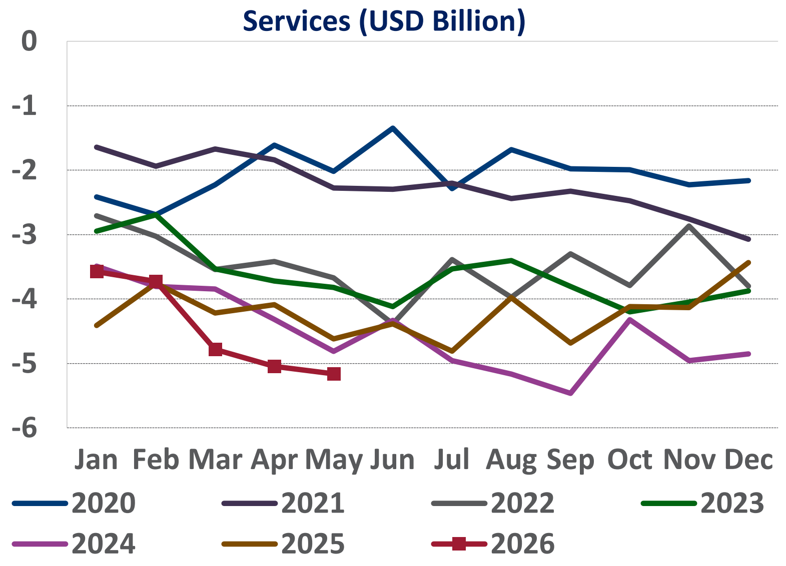


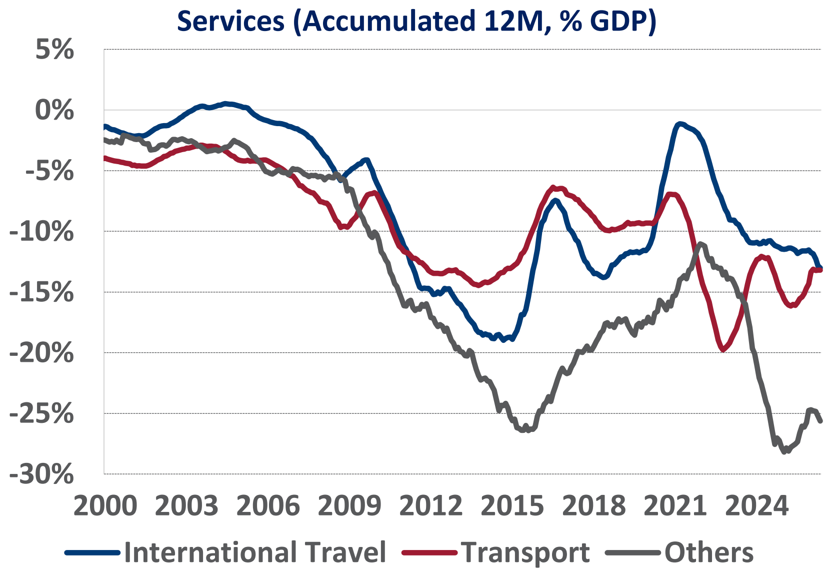
Source: BOCOM BBM, BCB

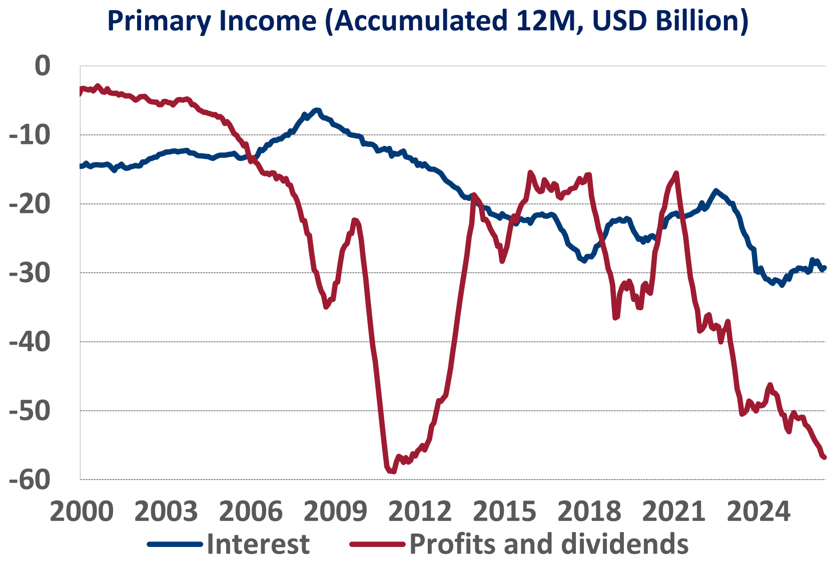
Brazil: Balance of Payments

- The services account posted a deficit of USD 5.2 billion in May, wider than the USD 4.6 billion deficit recorded in May 2025.
- The travel component remained a negative contributor, with net outflows rising 13.8% YoY, still reflecting the BRL appreciation accumulated over the year.
- Intellectual property and telecommunications services also contributed to the wider services deficit, rising 26.3% YoY and 42.5% YoY, respectively.
- On a 12-month rolling basis, the services deficit reached USD 51.8 billion.







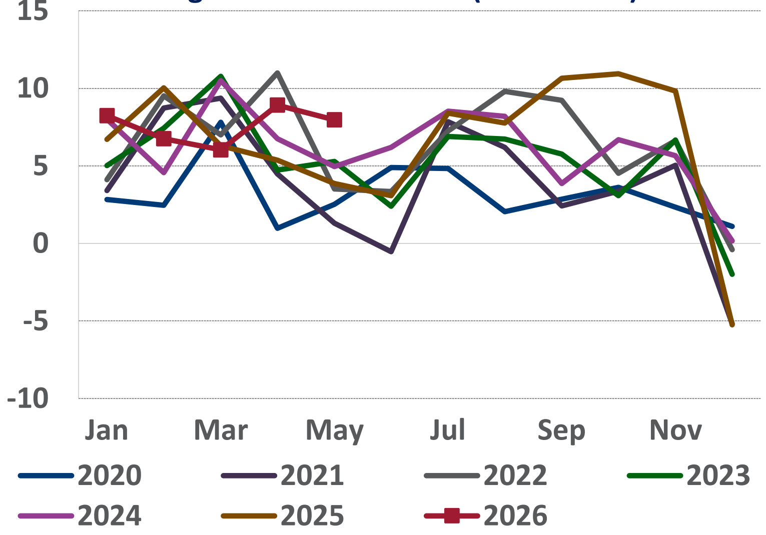


Source: BOCOM BBM, BCB

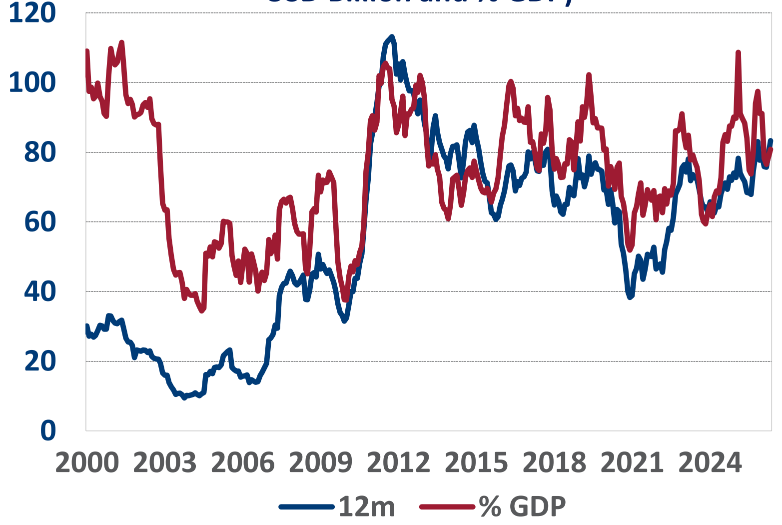
Brazil: Balance of Payments

- Foreign Direct Investment registered net inflows of USD 8.0 billion in May, above market expectations of USD 6.2 billion.
- On a 12-month rolling basis, FDI reached USD 83.3 billion, equivalent to 3.38% of GDP, up from USD 79.2 billion and 3.27% of GDP in April.
- Brazil is expected to remain structurally attractive for foreign direct investment, supported by its position in strategic minerals and renewable energy. FDI inflows are projected at USD 85.0 billion in 2026, equivalent to 3.1% of GDP.

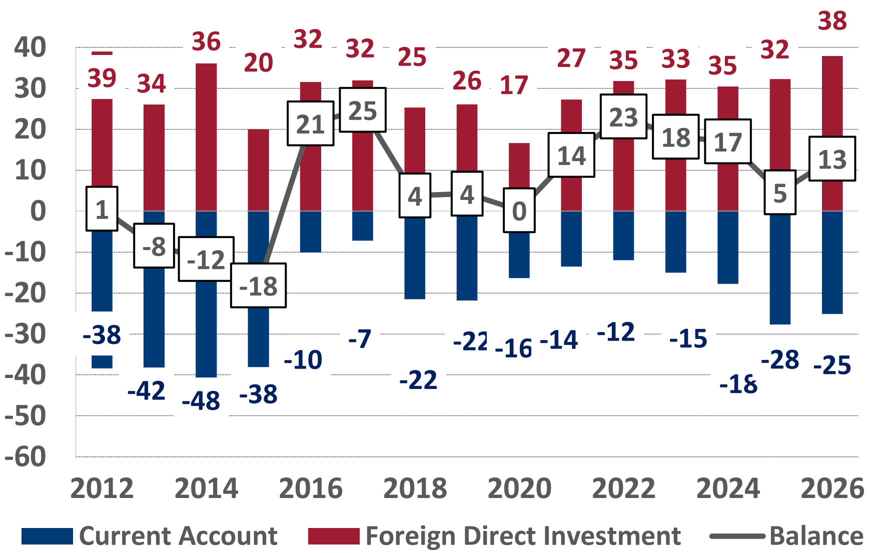
Foreign Direct Investment (USD Billion)



Foreign Direct Investment (Accumulated 12M, USD Billion and % GDP)



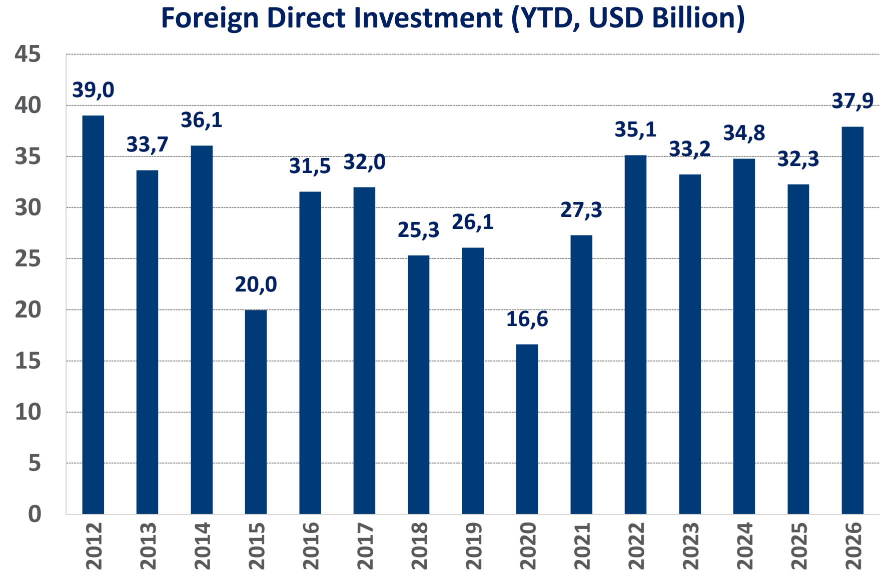
Current Account Balance and FDI (YTD, USD Billion)

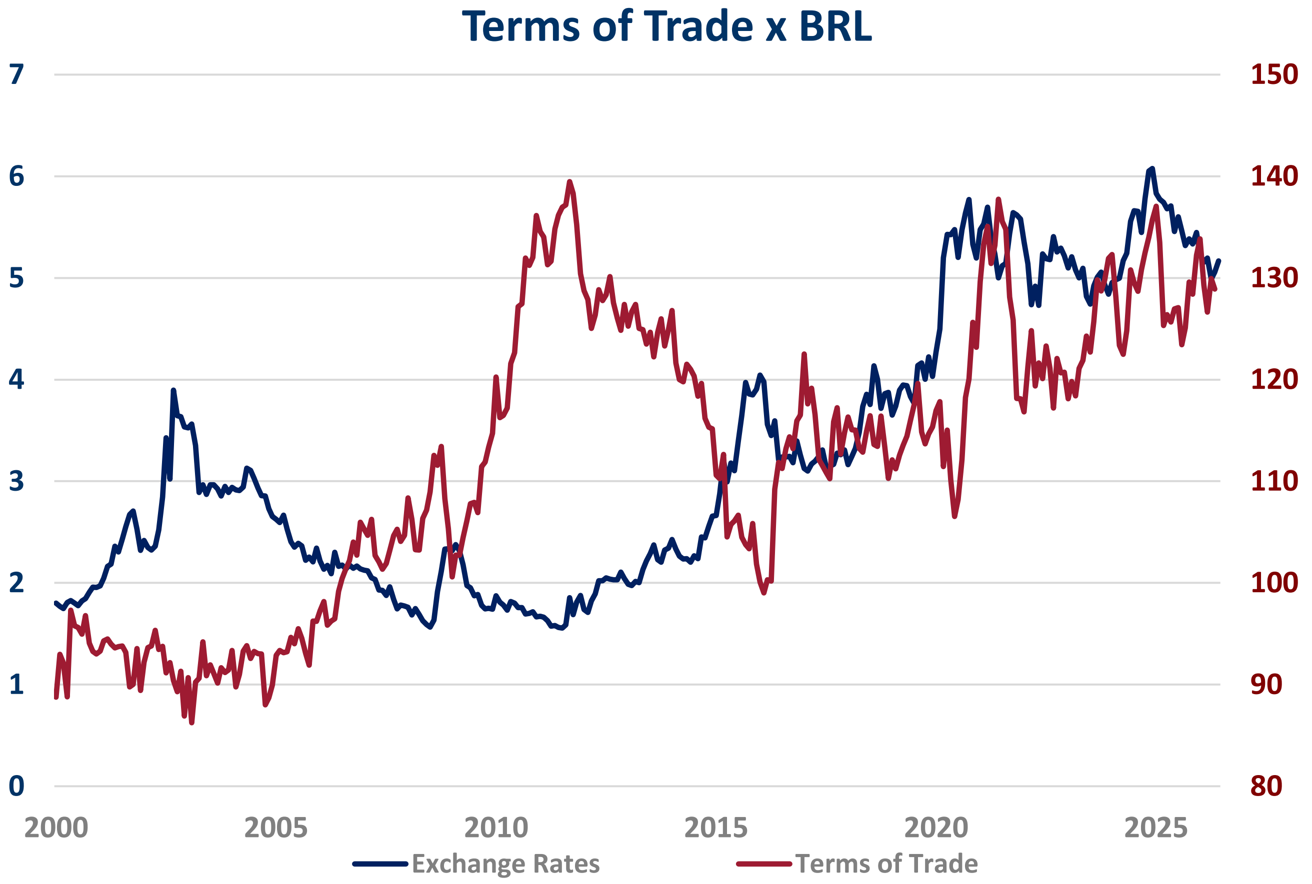


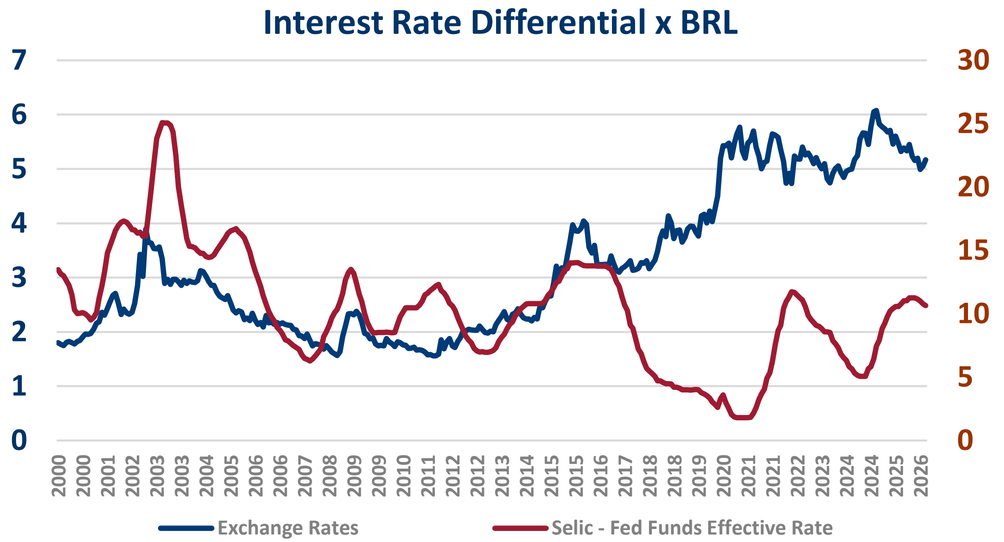
Source: BOCOM BBM, BCB

Brazil: External Sector

- In June, the Brazilian real depreciated, falling from 5.06 to around 5.17 per dollar, despite a more supportive external environment. The easing of geopolitical tensions in the Middle East contributed to the strengthening of the dollar, and the consequent drop in oil prices reduced the attractiveness of the Brazilian currency. Domestic factors played a more central role, particularly the debate surrounding Copom's policy communication and the implications of extending the relevant inflation horizon. Softer inflation data partially offset these concerns but were not sufficient to trigger a more meaningful appreciation.





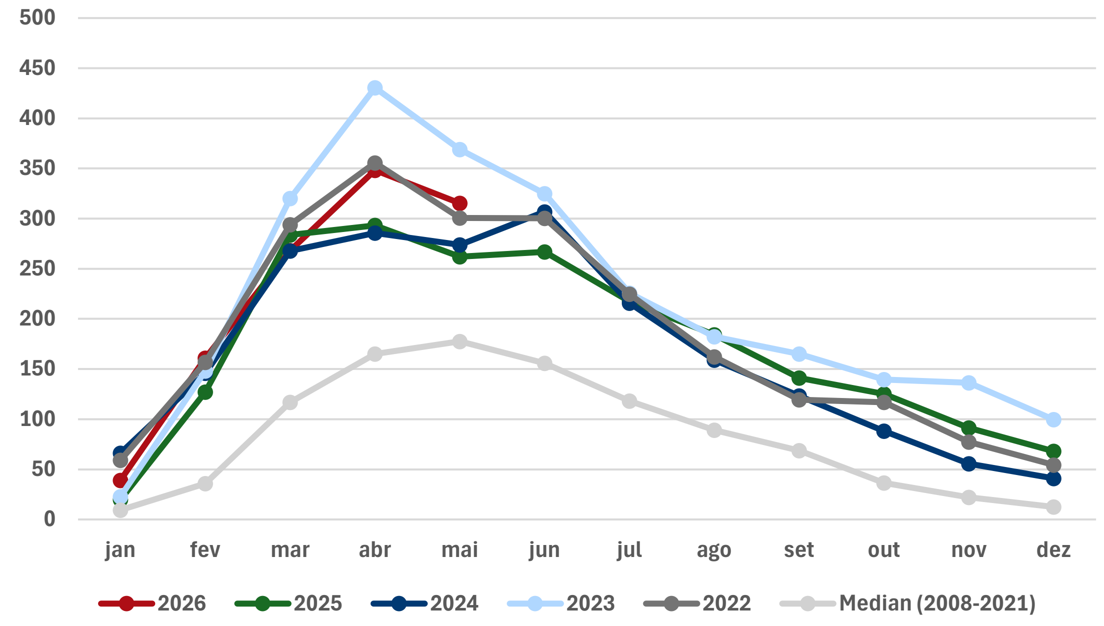


Source: BOCOM BBM, Bloomberg, BCB

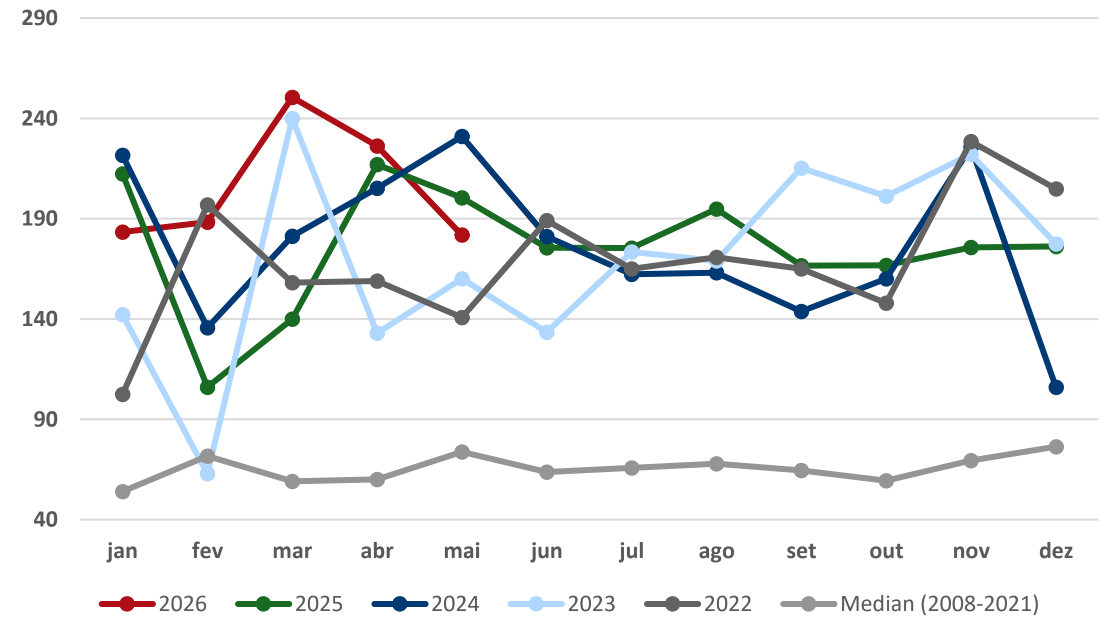
Brazil: External Sector

- In May, exports totaled US$ 31.9 billion and imports US$ 24.08 billion, resulting in a trade surplus of US$ 7.82 billion.
- The export performance was driven by strong growth in Agriculture (+9.8%, USD 8.15bn) and Manufacturing (+9.0%, USD 16.63bn), which more than offset the decline in Extractive Industries (-1.9%, USD 6.96bn), resulting in an overall increase in total exports.
- On the other hand, the import dynamics were mixed: declines in Agriculture (-7.8%, USD 0.46bn) and Extractive Industries (-10.1%, USD 0.86bn) were more than offset by strong growth in Manufacturing (+6.3%, USD 22.60bn), driving an overall expansion in total imports.

Brazil BoP: Soy Exports
USD Million Daily Average



Brazil BoP: Crude Oil Exports
USD Million Daily Average



Source: Secex, BOCOM BBM

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